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Securities and Exchange Commission
Washington, D.C. 20549

Form 10-K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2002

Commission file number 001-6351

Eli Lilly and Company

An Indiana corporation

I.R.S. employer number 35-0470950

Address: Lilly Corporate Center, Indianapolis, Indiana 46285

Telephone number, including area code: (317) 276-2000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock	New York and Pacific Stock Exchanges
Preferred Stock Purchase Rights	New York and Pacific Stock Exchanges
8-3/8% Notes Due December 1, 2006	New York Stock Exchange
6.57% Notes Due January 1, 2016	New York Stock Exchange
7-1/8% Notes Due June 1, 2025	New York Stock Exchange
6.77% Notes Due January 1, 2036	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant’s knowledge, in the definitive proxy statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the Registrant is an accelerated filer as defined in Exchange Act Rule 12b-2. Yes ☒ No o

Aggregate market value of voting stock of the Registrant held by non-affiliates as of February 18, 2003 (Common Stock): approximately $55,691,700,000.

Number of shares of common stock outstanding as of February 18, 2003: 1,122,675,834.

Portions of the following documents have been incorporated by reference into this report:

Registrant's Document	Parts Into Which Incorporated
Annual Report to Shareholders for fiscal year ended December 31, 2002	Parts I, II, and IV
Proxy Statement dated March 10, 2003	Part III

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Part I

Item 1. Business

Eli Lilly and Company (the "Company" or "Registrant", which may be referred to as "we", "us", or "our") was incorporated in 1901 in Indiana to succeed to the drug manufacturing business founded in Indianapolis, Indiana, in 1876 by Colonel Eli Lilly. We discover, develop, manufacture, and sell products in one significant business segment—pharmaceutical products. Operations of our animal health business segment are not material to our financial statements. We manufacture and distribute our products through owned or leased facilities in the United States, Puerto Rico, and 19 other countries. Our products are sold in approximately 150 countries.

Most of the products we sell today were discovered or developed by our own scientists, and our success depends to a great extent on our ability to continue to discover and develop innovative new pharmaceutical products. We direct our research efforts primarily toward the search for products to diagnose, prevent and treat human diseases. We also conduct research to find products to treat diseases in animals and to increase the efficiency of animal food production.

Products

Our products include:

Neuroscience products, our largest-selling product group, including Zyprexa®, a product for the treatment of schizophrenia and acute bipolar mania; Prozac®, indicated for the treatment of depression and, in many countries, for bulimia and obsessive-compulsive disorder; the Darvon® line of analgesic products; Permax®, a treatment for Parkinson's disease; Strattera™, approved in late 2002 in the U.S. for the treatment of attention-deficit hyperactivity disorder in children and adults; and Sarafem®, for the treatment of pre-menstrual dysphoric disorder;

Endocrine products, including Humulin®, human insulin produced through recombinant DNA technology; Humalog® and Humalog Mix 75/25®, rapid-acting injectable human insulin analogs of recombinant DNA origin; Actos®, an oral agent for Type 2 diabetes that is manufactured and sold by a unit of Takeda Chemical Industries, Ltd. of Japan ("Takeda") and co-promoted by us in the U.S. and certain other countries and sold by us alone in other countries; Evista®, an oral agent for the prevention and treatment of osteoporosis in post-menopausal women; Humatrope®, human growth hormone produced by recombinant DNA technology; and Forteo®, a recombinant form of parathyroid hormone approved in late 2002 in the U.S. for the treatment of osteoporosis in women and men;

Oncology products, consisting primarily of Gemzar®, indicated for treatment of pancreatic cancer and, in combination with other agents, for treatment of non-small-cell lung cancer;

Animal health products, including Tylan®, an antibiotic used to control certain diseases in cattle, swine, and poultry and to improve feed efficiency and growth; Rumensin®, a cattle feed additive that improves feed efficiency and growth and also controls and prevents coccidiosis; Coban®, Monteban® and Maxiban®, anticoccidial agents for use in poultry; Apralan®, an antibiotic used to control enteric infections in calves and swine; Micotil® and Pulmotil®, antibiotics used to treat respiratory disease in cattle and swine, respectively; Surmax® (sold as Maxus® in some countries), a performance enhancer for swine and poultry; and Paylean®, a leanness and performance enhancer for swine;

Cardiovascular agents, including ReoPro®, a monoclonal antibody product developed and manufactured by Centocor, Inc. (a unit of Johnson & Johnson) and co-marketed by Centocor and us for use as an adjunct to percutaneous coronary intervention ("PCI"), including patients undergoing angioplasty, atherectomy or stent placement; Xigris®, a novel biotech agent to treat adults with severe sepsis at high risk of death; Dobutrex®, an agent for cardiac decompensation; and Cynt™, marketed outside the United States for treatment of hypertension;

Anti-infectives, including the oral antibiotics Ceclor®, Dynabac®, Keflex®, Keftab®, and Lorabid®, used in the treatment of a wide range of bacterial infections; Vancocin® HCl, an injectable antibiotic used primarily to treat staphylococcal infections; and the injectable antibiotics Nebcin®, Tazidime®, Kefurox®, and Kefzol®, used to treat a wide range of bacterial infections in the hospital setting; and

Other pharmaceutical products, including the anti-ulcer agent Axid®.

Marketing

We sell most of our products worldwide. We adapt our marketing methods and product emphasis in various countries to meet local needs.

Pharmaceuticals — United States

In the United States, we distribute pharmaceutical products principally through approximately 35 independent wholesale distributors. Our marketing policy is designed to assure that products and relevant medical information are immediately available to physicians, pharmacies, hospitals, and appropriate health care professionals throughout the country. Three wholesale distributors in the United States — AmerisourceBergen Corporation, Cardinal Health, Inc., and McKesson Corporation — each accounted for between 16 and 17 percent of our worldwide consolidated net sales in 2002. No other distributor accounted for more than 10 percent of consolidated net sales. We also sell pharmaceutical products directly to the United States government and other manufacturers, but those sales are not material.

We promote our major pharmaceutical products in the United States through sales representatives who call upon physicians, wholesalers, hospitals, managed-care organizations, retail pharmacists, and other health care professionals. To support our sales representatives' efforts, we advertise in medical and drug journals, distribute literature and samples of certain products to physicians, and exhibit at medical meetings. In addition, we advertise certain products directly to consumers in the United States and we maintain web sites with information about all our major products. Divisions of our sales force are dedicated to product lines or practice areas, such as primary care, neuroscience, diabetes care, critical care, cardiovascular, endocrinology, and oncology. We have entered into licensing arrangements under which other companies market certain products manufactured by us, such as Darvon, Sarafem, Axid, Keftab, Lorabid, and Permax.

Large purchasers of pharmaceuticals, such as managed-care groups and government and long-term care institutions, account for a significant portion of total pharmaceutical purchases in the United States. We have created special sales groups to service managed-care organizations, government and long-term care institutions, hospital contract administrators, and certain retail pharmacies. In response to competitive pressures, we have entered into arrangements with a number of these organizations providing for discounts or rebates on one or more Company products or other cost-sharing arrangements.

Pharmaceuticals — Outside the United States

Outside the United States, we promote our pharmaceutical products primarily through sales representatives. While the products marketed vary from country to country, neuroscience products constitute the largest single group in total sales. Distribution patterns vary from country to country. In most countries, we maintain our own sales and distribution organizations. In some countries, however, we market our products through independent distributors.

Animal Health Products

Our Elanco Animal Health business unit employs field salespeople throughout the United States to market animal health products. Elanco also has an extensive sales force outside the United States. Elanco sells its products primarily to wholesale distributors.

Raw Materials and Product Supply

Most of the principal materials we use in our manufacturing operations are available from more than one source. We obtain certain raw materials principally from only one source. In addition, three of our significant products are manufactured by others: Actos by Takeda; ReoPro by Centocor; and Xigris by Lonza Biologics (bulk product) and DSM, N.V. (finished product). If we were unable to obtain certain materials from present sources, we could experience an interruption in supply until we established new sources or, in some cases, implemented alternative processes.

The majority of our sales abroad are of products manufactured wholly or in part abroad. However, a principal source of active ingredients for those manufactured products continues to be our facilities in the United States.

We seek to design and operate our manufacturing facilities and maintain inventory in a way that will allow us to meet all expected product demand while maintaining flexibility to reallocate manufacturing capacity to improve efficiency and respond to changes in supply and demand. However, pharmaceutical production processes are complex, highly regulated, and vary widely from product to product. Consequently, shifting or adding manufacturing capacity can be a very lengthy process requiring significant capital expenditures. Accordingly, if we were to experience extended plant shutdowns or extraordinary unplanned increases in demand, we could experience an interruption in supply of certain products or product shortages until production could be resumed or expanded.

Patents, Trademarks, and Other Intellectual Property Rights

Overview

Intellectual property protection is, in the aggregate, material to our ability to successfully commercialize our life sciences innovations. We own, have applied for, or are licensed under, a large number of patents, both in the United States and in other countries, relating to products, product uses, formulations, and manufacturing processes. There is no assurance that the patents we are seeking will be granted or that the patents we have been granted would be found valid if challenged. Moreover, patents relating to particular products, uses, formulations, or processes do not preclude other manufacturers from employing alternative processes or from marketing alternative products or formulations that might successfully compete with our patented products.

Outside the United States, the standard of intellectual property protection for pharmaceuticals varies widely. While many countries have reasonably strong patent laws, other countries currently provide little or no effective protection for inventions or other intellectual property rights. Under the Trade-Related Aspects of Intellectual Property Agreement (TRIPs) administered by the World Trade Organization (WTO), over 140 countries have now agreed to provide non-discriminatory protection for most pharmaceutical inventions and to assure that adequate and effective rights are available to all patent owners. However, in many countries, this agreement will not become fully effective for many years. It is possible that changes to this agreement will be made in the future that will diminish or further delay its implementation in developing countries. It is too soon to assess how much, if at all, we will benefit commercially from these changes.

When a product patent expires, the patent holder often loses effective market exclusivity for the product. This can result in very substantial reductions in sales of the formerly patented product, particularly in the United States. However, in some cases the innovator company can obtain additional commercial benefits through manufacturing trade secrets; later-expiring patents on processes, uses, or formulations; trademark use; or marketing exclusivity that may be available under pharmaceutical regulatory laws.

Our Intellectual Property Portfolio

We consider patent protection for certain products, processes, and uses—particularly that relating to Zyprexa, Gemzar, Humalog, Evista, Actos, ReoPro, Xigris, and Strattera—to be important to our operations. For many of our products, in addition to the compound patent we hold other patents on manufacturing processes, formulations, or uses that may extend exclusivity beyond the expiration of the product patent.

United States compound patent expirations include those claiming the respective active ingredients in Zyprexa, 2011; Humalog, 2013; and ReoPro, 2015. The Gemzar compound patent in the U.S. expires in 2010, but a use patent covering treatment of neoplasms with Gemzar is in force until 2012. We hold a number of U.S. patents covering Evista and its approved uses in osteoporosis prevention and treatment that we believe should provide us exclusivity in the United States until at least 2012. In the United States, the Actos compound patent extends beyond the duration of our co-promotion agreement, which is in force until 2006. Xigris is a complex glycoprotein biologic product that is produced through recombinant DNA technology. Xigris is not subject to the Abbreviated New Drug Application process under the Hatch-Waxman law as described below. In addition, we hold patents on the DNA materials, certain uses, manufacturing process, and the glycoprotein itself. We believe the intellectual property protection for Xigris should provide us marketing exclusivity until 2015. For Strattera, we hold a use patent in the U.S. for treating attention deficit-hyperactivity disorder, the sole approved use of the drug. This use patent expires in 2015 and we have applied for a patent term extension to 2016.

Worldwide, we sell all of our major products under trademarks that we consider in the aggregate to be important to our operations. Trademark protection varies throughout the world, with protection continuing in some countries as long as the mark is used, and in other countries as long as it is registered. Registrations are normally for fixed but renewable terms.

Patent Challenges Under the Hatch-Waxman Act

The Drug Price Competition and Patent Term Restoration Act of 1984, commonly known as “Hatch-Waxman,” made a complex set of changes to both patent and new-drug-approval laws in the United States. Before Hatch-Waxman, no drug could be approved without providing the Food and Drug Administration (“FDA”) complete safety and efficacy studies, *i.e.*, a complete New Drug Application (“NDA”). Hatch-Waxman authorizes the FDA to approve generic versions of innovative medicines without such information by filing an Abbreviated New Drug Application (“ANDA”). In an ANDA, the

generic manufacturer must demonstrate only “bioequivalence” between the generic version and the NDA-approved drug — not safety and efficacy.

Absent a successful patent challenge, the FDA cannot approve an ANDA until after the innovator’s patents expire. However, after the innovator has marketed its product for four years, a generic manufacturer may file an ANDA alleging that one or more of the patents listed in the innovator’s NDA are invalid or not infringed. This allegation is commonly known as a “Paragraph IV certification.” The innovator must then file suit against the generic manufacturer to protect its patents. If one or more of the NDA-listed patents are successfully challenged, the first filer of a Paragraph IV certification may be entitled to a 180-day period of market exclusivity over all other generic manufacturers.

In recent years, generic manufacturers have used Paragraph IV certifications extensively to challenge patents on a wide array of innovative pharmaceuticals, and we expect this trend to continue. We are currently in litigation with numerous generic manufacturers arising from their Paragraph IV certifications on Zyprexa, Evista, and Sarafem. For more information on the Zyprexa and Evista patent litigation, see Part 1, Item 3, Legal Proceedings.

Proposals have been introduced in Congress to amend various aspects of Hatch-Waxman. In general, the proposals appear to be principally designed to encourage more Paragraph IV challenges to innovator patents and to limit an innovator’s ability to protect patents. We cannot predict whether any changes will be made or what impact they would have on our business.

The FDA has recently proposed regulations that represent a substantial reinterpretation of certain Hatch-Waxman provisions relating to the enforcement of drug patents. The new FDA interpretation would limit in certain circumstances the innovator company’s ability to secure a full court review of drug patent issues raised in a Paragraph IV patent challenge by a generic drug company before FDA approval would be given to a generic drug. If the proposed FDA regulations become effective, we do not expect any material impact on the patent defense for any Lilly product that is subject to a Paragraph IV patent challenge nor do we expect any material impact on the way in which we conduct our operations under the Hatch-Waxman Act.

Competition

Our pharmaceutical products compete with products manufactured by many other companies in highly competitive markets throughout the world. Our animal health products compete on a worldwide basis with products of pharmaceutical, chemical, and other companies that operate animal health divisions or subsidiaries.

Important competitive factors include product efficacy, safety and ease of use, price and demonstrated cost-effectiveness, marketing effectiveness, service, and research and development of new products and processes. If competitors introduce new products and processes with therapeutic or cost advantages, our products can be subject to progressive price reductions or decreased volume of sales, or both. Most new products that we introduce must compete with other products already on the market or products that are later developed by competitors. Manufacturers of generic pharmaceuticals typically invest far less in research and development than research-based pharmaceutical companies and therefore can price their products significantly lower than branded products. Accordingly, when a branded product loses its market exclusivity, it normally faces intense price competition from generic forms of the product. In many countries outside the United States, patent protection is weak or nonexistent and we must compete with generic or “knockoff” versions of our products. To successfully compete for business with managed care and pharmacy benefits management organizations, we must often demonstrate that our products offer not only medical benefits but also cost advantages as compared with other forms of care.

We believe our long-term competitive position depends upon our success in discovering and developing innovative, cost-effective products that serve unmet medical needs, together with our ability to manufacture the products efficiently and to market them effectively in a highly competitive environment. There can be no assurance that our research and development efforts will result in commercially successful products or that our products or processes will not become outmoded from time to time as a result of products or processes developed by our competitors.

Government Regulation

Our operations are regulated extensively by the federal government, to some extent by state governments, and in varying degrees by foreign governments. The Federal Food, Drug, and Cosmetic Act, other federal statutes and regulations, various state statutes and regulations, and laws and regulations of foreign governments govern to varying degrees the testing, approval, production, labeling, distribution, post-market surveillance, advertising, dissemination of information, and promotion of our products. The lengthy process of laboratory and clinical testing, data analysis, manufacturing development, and regulatory review necessary for required governmental approvals is extremely costly and can significantly delay product introductions in a given market. Promotion, marketing, manufacturing, and distribution of pharmaceutical products are extensively regulated in all major world markets. In addition, our operations are subject to complex federal, state, local, and foreign environmental and occupational safety laws and regulations. We anticipate that the laws and regulations affecting the manufacture and sale of current products and the introduction of new products will continue to require substantial scientific and technical effort, time, and expense and significant capital investment.

In the United States, the Omnibus Budget Reconciliation Act of 1990 requires us to provide rebates to state governments on their purchases of certain of our products under state Medicaid programs. In addition, a model waiver program has been created administratively that allows states to expand the Medicaid drug benefit to include low-income Medicare beneficiaries. Other cost containment measures have been adopted or proposed by federal, state, and local government entities that provide or pay for health care. In most international markets, we operate in an environment of government-mandated cost containment programs, which may include price controls, discounts and rebates, restrictions on physician prescription levels, restrictions on reimbursement, compulsory licenses and generic substitution.

In the U.S., we expect branded pharmaceutical products to be subject to increasing pricing pressures. Our business could be significantly affected by the current national debate over Medicare reform as well as by actions by individual states to reduce pharmaceutical costs for Medicaid patients, seniors, and the uninsured and underinsured. Many proposals now being considered at the federal and state levels and, in some cases, implemented at the state level, would result in government agencies demanding discounts and rebates from pharmaceutical companies that may expressly or implicitly create price controls on prescription drugs. Also, some U.S. lawmakers are considering proposals to legalize the wholesale importation of prescription drugs from Canada, a price-controlled jurisdiction. A number of states have begun to implement supplemental rebates and restricted formularies in their Medicaid programs. In 2000, the state of Maine enacted legislation that would extend Medicaid rebates beyond the current Medicaid population. This program has been upheld by a federal appeals court and is currently under review by the U.S. Supreme Court. While legal challenges to these and other state programs have been mounted, it is unknown at this time if the courts will allow them to continue. If upheld, these types of programs could be adopted by other states.

International operations are also generally subject to extensive price and market regulations, and there are many proposals for additional cost-containment measures, including proposals that would directly or indirectly impose additional price controls or reduce the value of our intellectual property protection.

We cannot predict whether such proposals will be adopted or the extent to which our business may be affected by these or other potential future legislative or regulatory developments. However, we expect that pressures on pharmaceutical pricing will continue and likely intensify in the near term.

Research and Development

Our commitment to research and development dates back more than 100 years. Our research and development activities are responsible for the discovery and development of most of the products we offer today. We invest heavily in research and development because we believe it is critical to our long-term competitiveness. At the end of 2002, we employed approximately 8,325 people in pharmaceutical and animal health research and development activities, including a substantial number of physicians, scientists holding graduate or postgraduate degrees, and highly skilled technical personnel. Our research and development expenses were $2.02 billion in 2000, $2.24 billion in 2001, and $2.15 billion in 2002.

We concentrate our pharmaceutical research and development efforts in five therapeutic categories: central nervous system and related diseases; endocrine diseases, including diabetes and osteoporosis; cancer; cardiovascular diseases; and inflammation. However, we remain opportunistic, selectively pursuing promising leads in other therapeutic areas. We are actively engaged in biotechnology research programs involving recombinant DNA, proteins, and genomics (the development of therapeutics through identification of disease-causing genes and their cellular function). In addition to discovering and developing new chemical entities, we look for ways to expand the value of existing products through new uses and formulations that can provide additional benefits to patients. We also conduct extensive research in the animal sciences, including animal nutrition and physiology and veterinary medicine.

To supplement our internal efforts, we collaborate with independent research organizations, including educational institutions and research-based pharmaceutical and biotechnology companies, and we contract with others for the performance of research in their facilities. We use the services of physicians, hospitals, medical schools, and other research organizations worldwide to conduct clinical trials to establish the safety and effectiveness of new products. We actively seek out investments in external research and technologies that hold the promise to complement and strengthen our own research efforts. These investments can take many forms, including licensing arrangements, co-development and co-marketing agreements, co-promotion arrangements, joint ventures, and acquisitions.

Drug development is time-consuming, expensive, and risky. On average, only one out of many thousands of chemical compounds discovered by researchers proves to be both medically effective and safe enough to become an approved medicine. The process from discovery to regulatory approval typically takes 10-15 years or longer. Drug candidates can fail at any stage of the process, and even late-stage product candidates sometimes fail to receive regulatory approval. We believe our investments in research, both internally and in collaboration with others, have been rewarded by the number of new pharmaceutical compounds and indications we have in all stages of development. Among our new investigational compounds in the later stages of development are potential therapies for male erectile dysfunction, depression, various cancers, stress urinary incontinence, diabetes and its complications, and anxiety disorder. Further, we are studying many other drug candidates in the earlier stages of development. We are also developing new uses and formulations for many of our important currently marketed products, such as Zyprexa, Gemzar, ReoPro, and Evista.

Quality Assurance

Our success depends in great measure upon customer confidence in the quality of our products and in the integrity of the data that support their safety and effectiveness. Product quality arises from a total

commitment to quality in all parts of our operations, including research and development, purchasing, facilities planning, manufacturing, and distribution. We have implemented quality-assurance procedures relating to the quality and integrity of scientific information and production processes.

Control of production processes involves rigid specifications for ingredients, equipment, facilities, manufacturing methods, packaging materials, and labeling. We perform tests at various stages of production processes and on the final product to assure that the product meets all regulatory requirements and our standards. These tests may involve chemical and physical chemical analyses, microbiological testing, testing in animals, or a combination. Additional assurance of quality is provided by a corporate quality-assurance group that monitors existing pharmaceutical and animal health manufacturing procedures and systems in the parent company, subsidiaries and affiliates, and third-party suppliers.

As a result of preapproval plant inspections for Zyprexa IntraMuscular and Forteo in early 2001, the FDA informed us of a number of observations and issued a warning letter regarding adherence to current good manufacturing practices ("cGMP") regulations. In response, we have been implementing comprehensive, companywide improvements in our manufacturing operations. In November 2001, following a reinspection of the manufacturing facilities for Zyprexa IntraMuscular and Forteo, the FDA noted additional observations, primarily relating to computer system validation, manufacturing process reviews, and data handling. In the spring of 2002, as part of cGMP inspection requirements and pre-approval inspections related to our product pipeline, the FDA conducted a comprehensive review of eight of our global manufacturing sites and issued reports summarizing the investigators' findings. Fifty observations were noted in the combined inspection reports for the Indianapolis facilities. The findings primarily related to overly complex quality processes, insufficient technical expertise and oversight, and our need to improve our ability to identify the root cause of manufacturing deviations. The number of observations for the inspections outside Indianapolis ranged from zero to a maximum of 16 at one site. Two subsequent inspections, in Puerto Rico and Indianapolis, resulted in no observations at either site. In the fall of 2002, we provided the FDA with a comprehensive plan to upgrade our manufacturing and quality operations, particularly at our Indianapolis facilities. We are moving vigorously to implement the plan and are engaged in discussions with the agency on our plan and its ongoing implementation. We are preparing for inspections in two of our Indianapolis facilities.

Although the FDA has not yet cleared all our manufacturing operations, the agency did approve Strattera and Forteo in November 2002. Approval of Zyprexa IntraMuscular and Cymbalta™ (a new antidepressant) will depend on resolution of manufacturing issues in relevant Indianapolis facilities to the FDA's satisfaction. The approval of Cialis™ (a treatment for erectile dysfunction) is not expected to be affected since this product is manufactured outside Indianapolis. The timeline for resolution of these issues is difficult to predict. A manufacturer subject to a warning letter that fails to correct cGMP deficiencies to the agency's satisfaction could be subject to interruption of production, recalls, seizures, fines, and other penalties.

Executive Officers of the Company

The following table sets forth certain information regarding our executive officers. All executive officers except Mr. Robert A. Armitage have been employed by the Company in executive positions during the last five years. Prior to joining Lilly in 1999, Mr. Armitage was a partner in the law firm of Vinson & Elkins LLP and headed the firm's intellectual property law practice in Washington, D.C. Previously, he held various positions at The Upjohn Company, where he was vice president, corporate intellectual property law, from 1987 to 1993.

The term of office for each executive officer expires on the date of the annual meeting of the Board of Directors, to be held on April 28, 2003, or on the date his or her successor is chosen and qualified. No

director or executive officer of the Company has a "family relationship" with any other director or executive officer of the Company, as that term is defined for purposes of this disclosure requirement. There is no understanding between any executive officer and any other person pursuant to which the executive officer was selected.

Name	Age	Offices
Sidney Taurel	54	Chairman of the Board (since January 1999), President and Chief Executive Officer (since June 1998), and a Director
Charles E. Golden	56	Executive Vice President and Chief Financial Officer (since March 1996) and a Director
John C. Lechleiter, Ph.D.	49	Executive Vice President, Pharmaceutical Products and Corporate Development (since January 2001)
Gerhard N. Mayr	56	Executive Vice President, Pharmaceutical Operations (since October 1999)
August M. Watanabe, M.D.	61	Executive Vice President, Science and Technology (since February 1996) and a Director
Pedro P. Granadillo	55	Senior Vice President (since June 1998)
Rebecca O. Kendall	55	Senior Vice President and General Counsel (since June 1998) (retired January 2003)
Robert A. Armitage	54	Senior Vice President and General Counsel (since January 2003)

Employees

At the end of 2002, we employed approximately 43,700 people, including approximately 18,750 employees outside the United States. A substantial number of our employees have long records of continuous service.

Financial Information Relating to Business Segments and Classes of Products

You can find financial information relating to our business segments and classes of products in our 2002 Annual Report at page 30 under "Segment Information" (page 17 of Exhibit 13 to this Form 10-K). That information is incorporated into this Report by reference.

The relative contribution of any particular product to our consolidated net sales changes from year to year. This is due to several factors, including the introduction of new products by us and by other manufacturers and the introduction of generic pharmaceuticals upon patent expirations. In addition, margins vary for our different products due to various factors, including differences in the cost to manufacture and market the products, the value of the products to the marketplace, and government restrictions on pricing and reimbursement.

Financial Information Relating to Foreign and Domestic Operations

You can find financial information relating to foreign and domestic operations in our 2002 Annual Report at page 30 under “Segment Information” (page 17 of Exhibit 13). That information is incorporated in this Report by reference.

To date, our overall operations abroad have not been significantly deterred by local restrictions on the transfer of funds from branches and subsidiaries located abroad, including the availability of dollar exchange. We cannot predict what effect these restrictions or the other risks inherent in foreign operations, including possible nationalization, might have on our future operations or what other restrictions may be imposed in the future. In addition, changing currency values can either favorably or unfavorably affect our financial position and results of operations. We actively manage foreign exchange risk through various hedging techniques including the use of foreign currency contracts.

Available Information on Our Web Site

We make available through our company web site, free of charge, our company filings with the Securities and Exchange Commission (SEC) as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. The reports we make available include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, registration statements, and any amendments to those documents.

The company web site link to our SEC filings is http://investor.lilly.com/edgar.cfm.

Item 2. Properties

Our principal domestic and international executive offices are located in Indianapolis. At December 31, 2002, we owned 12 production and distribution facilities in the United States and Puerto Rico. Together with the corporate administrative offices, these facilities contain an aggregate of approximately 9.6 million square feet of floor area dedicated to production, distribution, and administration. Major production sites include Indianapolis; Clinton and Lafayette, Indiana; and Carolina and Mayaguez, Puerto Rico. We also lease sales and administrative offices in Indianapolis and a number of other cities located in the United States and abroad.

We own production and distribution facilities in 17 countries outside the United States and Puerto Rico, containing an aggregate of approximately 4.6 million square feet of floor space. Major production sites include facilities in the United Kingdom, France, Ireland, Spain, Brazil, Italy, and Mexico. We lease production and warehouse facilities in Puerto Rico and several countries outside the United States.

Our research and development facilities in the United States consist of approximately 4.2 million square feet and are located primarily in Indianapolis and Greenfield, Indiana. Our major research and development facilities abroad are located in Belgium, United Kingdom, Germany, Canada, and Spain and contain an aggregate of approximately 660,000 square feet.

We believe that none of our properties is subject to any encumbrance, easement, or other restriction that would detract materially from its value or impair its use in the operation of the business. The buildings we own are of varying ages and in good condition.

Item 3. Legal Proceedings

Zyprexa Patent Litigation

In February 2001, we were notified that Zenith Goldline Pharmaceuticals, Inc. had submitted an abbreviated new drug application ("ANDA") with the U.S. FDA seeking permission to market a generic version of Zyprexa in various dosage forms several years prior to the expiration of our U.S. patents for the product, alleging that the patents are invalid or not infringed. On April 2, 2001, we filed suit against Zenith in federal district court in Indianapolis seeking a ruling that Zenith's challenge to the U.S. compound patent (expiring in 2011) is without merit. In May 2001, we were notified that Dr. Reddy's Laboratories, Ltd. had also filed an ANDA covering two dosage forms, alleging that the patents are invalid or not infringed. On June 26, 2001, we filed a similar patent infringement suit against Reddy in federal district court in Indianapolis. Thereafter, we were notified that Reddy had filed an ANDA for additional dosage forms, and in February 2002, we filed an infringement suit in the same court based on Reddy's additional ANDA. We received notice in August 2002 of a similar ANDA filing by Teva Pharmaceuticals, and in September 2002, we filed suit against Teva in the same court. Finally, in February 2003, we received notice that Reddy had filed an ANDA on the Zydis® formulation of Zyprexa, and in March 2003, we filed suit against Reddy in the same court. The cases are consolidated and are in the discovery stage. Trial is currently scheduled to begin on January 26, 2004. We believe that the generic manufacturers' claims are without merit and we expect to prevail in this litigation. However, it is not possible to predict or determine the outcome of this litigation and therefore we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

Other Patent Litigation

In October 2002, we were notified that Barr Laboratories, Inc. had submitted an ANDA with the U.S. FDA seeking permission to market a generic version of Evista several years prior to the expiration of our U.S. patents covering the product, alleging that the patents are invalid or not infringed. On November 26, 2002, we filed suit against Barr in federal district court in Indianapolis seeking a ruling that Barr's challenges to our patents claiming the method of use and pharmaceutical form (expiring from 2012 to 2017) are without merit. The case is in discovery with a trial date currently scheduled for February 2005. While we believe that Barr's claims are without merit and expect to prevail, it is not possible to predict or determine the outcome of the litigation. Therefore, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

In October 2002, Pfizer Inc. filed a lawsuit in the United States District Court in Delaware against us, Lilly ICOS LLC, and ICOS Corporation alleging that the proposed marketing of Cialis for erectile dysfunction would infringe its newly issued method-of-use patent. Previously, Pfizer's corresponding European method-of-use patent was held invalid in the first stage of an opposition proceeding in the European Patent Office. Pfizer is now appealing that decision. In addition, the U.K. counterpart to this patent has been held invalid by the U.K. Court of Appeal. The U.S. case is in the preliminary stages. We intend to vigorously defend this lawsuit and expect to prevail. However, it is not possible to predict or determine the outcome of this litigation and therefore we can provide no assurance that we will prevail.

Product Liability Litigation

We are currently a defendant in a variety of product liability litigation lawsuits in the United States involving primarily diethylstilbestrol ("DES") and thimerosal.

In approximately 105 actions, including several with multiple claimants, plaintiffs seek to recover damages on behalf of children or grandchildren of women who ingested DES during pregnancy.

In late February 2003, a law firm in San Francisco, California, issued a press release claiming that it has filed “several” lawsuits and is in the process of filing “numerous” other suits against the company on behalf of plaintiffs who claim that they suffered various illnesses as a result of administration of Zyprexa. We intend to vigorously defend all such suits. As of March 18, 2003, only one suit had been served on us.

We have been named as a defendant in over 200 actions in the U.S., including several that purport to be class actions, brought in various state courts and federal district courts on behalf of children with autism or other neurological disorders who received childhood vaccines (manufactured by other companies) that contained thimerosal, a generic preservative used in certain vaccines in the U.S. from the 1930’s until approximately 2000. We discovered and developed thimerosal in the 1920’s. We have been named in the suits even though we discontinued manufacturing the raw material used to preserve vaccines in 1974 and discontinued selling it in the United States to vaccine manufacturers in 1992. The lawsuits typically name the vaccine manufacturers, Lilly and other distributors of thimerosal, and allege that the children’s exposure to thimerosal-containing vaccines caused their autism or other neurological disorders. We strongly deny any liability in these cases. There is no scientific evidence establishing a causal relationship between thimerosal-containing vaccines and autism or other neurological disorders. In addition, we believe the cases should not be prosecuted in the courts in which they have been brought because the underlying claims are subject to the National Childhood Vaccine Injury Act of 1986. Implemented in 1988, the Act established a mandatory, federally administered no-fault claims process for individuals who allege that they were harmed by the administration of childhood vaccines. Under the Act, claims must first be brought before the U.S. Court of Claims for an award determination under the compensation guidelines established pursuant to the Act. Claimants who are unsatisfied with their awards under the Act may reject the award and seek traditional judicial remedies.

Other Matters

In July 2002, we received a grand jury subpoena for documents from the Office of Consumer Litigation, Department of Justice, related to our marketing of Evista. The investigation centers on our communications with physicians regarding existing clinical data assessing the potential for Evista in reducing the risk of breast cancer and cardiovascular disease. It has been alleged that certain of these communications with physicians regarding these data constituted unlawful promotion of Evista for indications that are not approved by the FDA. We are in the process of responding to the subpoena. We have established a number of policies and procedures designed to ensure that these types of communications with respect to clinical data comply with all promotional laws and regulations. However, it is possible that criminal penalties could be sought in this matter.

In March 1996, the U.S. Federal Trade Commission (“FTC”) commenced a non-public antitrust investigation focusing on the pharmaceutical industry practice of providing discounts or rebates to managed-care organizations and certain other purchasers. We have responded to two subpoenas from the FTC requesting production of certain documents and other discovery responses. We believe that all of our actions have been lawful and proper and are cooperating with the investigation.

In March 2001, we received a subpoena, issued at the request of the Commonwealth’s attorney for the Commonwealth of Massachusetts, for production of documents related to pricing and Medicaid reimbursement of our products in Massachusetts. We believe that we are not the only pharmaceutical company to receive such a request. We are cooperating with the inquiry and we believe that all of our practices have been lawful and proper.

We were named as a defendant along with many other pharmaceutical manufacturers in lawsuits in federal district court for the district of Massachusetts (served on us in December 2001) and in federal district court for the eastern district of Pennsylvania (served on us in May 2002). The suits purported to be nationwide class actions on behalf of consumers of certain prescription drugs, claiming in general that

as a result of alleged improprieties in the calculation and reporting of average wholesale prices for purposes of Medicare reimbursement, consumers overpaid their portion of the cost of the drugs. The two suits were thereafter consolidated as part of a multi-district litigation ("MDL") in the district of Massachusetts, In *re Pharmaceutical Industry Average Wholesale Price Litigation*, MDL No. 1456. In September 2002, the plaintiffs filed a consolidated master complaint in the MDL and did not name us as a defendant. Thus, we are no longer a party to the MDL action. We have also been named as a defendant along with many other manufacturers in similar suits brought in state courts in Montana and Nevada by the attorneys general of those two states. The suits seek damages on behalf of both the respective states as health care payers and consumers of certain prescription drugs in those states. The Montana suit was brought in state court in Montana in February 2002 and the Nevada suit was brought in a Nevada state court in March 2002. In January 2003, a similar suit was filed against us and several other pharmaceutical manufacturers by the local government of Suffolk County, New York, in the federal district court for the Eastern District of New York. We believe that all of our practices in this regard have been lawful and proper and that these suits are without merit. However, it is impossible to predict or determine the outcome of this litigation and, accordingly, we can provide no assurance that we will prevail.

We are also a defendant in other litigation and investigations, including product liability and patent suits, of a character we regard as normal to our business.

While it is not possible to predict or determine the outcome of the legal actions and investigations pending against us, we believe that except as noted above with respect to the Zyprexa and Evista patent litigation, the costs associated with all such matters will not have a material adverse effect on our consolidated financial position or liquidity but could possibly be material to our consolidated results of operations in any one accounting period.

Item 4. Submission of Matters to a Vote of Security Holders

During the fourth quarter of 2002, no matters were submitted to a vote of security holders.

Part II

Item 5. Market For the Company's Common Stock and Related Stockholder Matters

You can find information relating to the principal market for our common stock and related stockholder matters in our 2002 Annual Report under "Selected Quarterly Data (unaudited)," at page 31 (page 18 of Exhibit 13), and "Selected Financial Data (unaudited)," at page 32 (page 19 of Exhibit 13). That information is incorporated in this Report by reference.

Item 6. Selected Financial Data

You can find selected financial data for each of our five most recent fiscal years in our 2002 Annual Report under "Selected Financial Data (unaudited)," at page 32 (page 19 of Exhibit 13). That information is incorporated in this Report by reference.

Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition

You can find management's discussion and analysis of results of operations and financial condition in the following portions of our 2002 Annual Report (found at pages 1-11 of Exhibit 13):

"Review of Operations—Operating Results—2002" (pages 16-18)
"Review of Operations—Operating Results—2001" (pages 18 and 20-21)
"Review of Operations—Financial Condition" (pages 21-22)
"Review of Operations—Application of Critical Accounting Policies" (pages 22-23 and 25)
"Review of Operations—Other Matters" (pages 25-26)
"Review of Operations—Financial Expectations for 2003" (pages 26-27)
"Review of Operations—Legal and Environmental Matters" (page 27)
"Review of Operations—Private Securities Litigation Reform Act of 1995 — A Caution Concerning Forward-Looking Statements" (page 27)

The information referred to above is incorporated in this Report by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

You can find quantitative and qualitative disclosures about market risk (*e.g.*, interest rate risk) in our 2002 Annual Report at "Review of Operations — Financial Condition" on page 22, paragraphs 1 through 3 (pages 5-6 of Exhibit 13). That information is incorporated in this Report by reference.

Item 8. Financial Statements and Supplementary Data

You can find the consolidated financial statements of the Company and its subsidiaries in our 2002 Annual Report at pages 19, 24, and 28-29 (Consolidated Statements of Income, Consolidated Balance Sheets, Consolidated Statements of Cash Flows, and Consolidated Statements of Comprehensive Income), page 30 (Segment Information), and pages 33-46 (Notes to Consolidated Financial Statements) (together, pages 12-17 and 20-35 of Exhibit 13). You can find the Report of Independent Auditors at page 47 of the Annual Report (page 37 of Exhibit 13). All of the above information is incorporated in this Report by reference.

Also incorporated by reference is information on quarterly results of operations, which can be found in our 2002 Annual Report under "Selected Quarterly Data (unaudited)," at page 31 (page 18 of Exhibit 13).

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Part III

Item 10. Directors and Executive Officers of the Company

You can find information relating to our Board of Directors in our Proxy Statement dated March 10, 2003, under “Board of Directors” at pages 6-9, and information relating to our executive officers at pages 8-9 of this Form 10-K under “Executive Officers of the Company.” All of that information is incorporated in this Report by reference.

Item 11. Executive Compensation

You can find information on executive compensation in the Proxy Statement under “Directors’ Compensation” and “Executive Compensation” at pages 16-23. That information is incorporated in this Report by reference, except that the Compensation Committee Report is not incorporated in this Report.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

You can find information relating to ownership of the Company’s common stock by management and by persons known by the Company to be the beneficial owners of more than five percent of the outstanding shares of common stock in the Proxy Statement under “Ownership of Company Stock,” at pages 25 and 26. That information is incorporated in this Report by reference.

You can find information relating to shares of the Company’s common stock authorized for issuance under equity compensation plans in the Proxy Statement under “Equity Compensation Information,” at page 29. That information is incorporated in this Report by reference.

Item 13. Certain Relationships and Related Transactions

None.

Item 14. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under applicable Securities and Exchange Commission regulations, the principal executive officer and principal financial officer of a reporting company are required to periodically review the company's "disclosure controls and procedures," which are defined generally as controls and other procedures of a reporting company designed to ensure that information required to be disclosed by the reporting company in its periodic reports filed with the Commission (such as this Form 10-K) is recorded, processed, summarized, and reported on a timely basis.

As of March 19, 2003 (the "Evaluation Date"), Sidney Taurel, chairman, president, and chief executive officer, and Charles E. Golden, executive vice president and chief financial officer, evaluated our disclosure controls and procedures and concluded that they are effective.

Changes in Internal Controls

There have been no significant changes in our internal controls or in other factors that could significantly affect our internal controls subsequent to the Evaluation Date.

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a)1. Financial Statements

The following consolidated financial statements of the Company and its subsidiaries, included in our 2002 Annual Report at the pages indicated in parentheses, are incorporated by reference in Item 8:

Consolidated Statements of Income—Years Ended December 31, 2002, 2001, and 2000 (page 19) (page 12 of Exhibit 13)

Consolidated Balance Sheets—December 31, 2002 and 2001 (page 24) (pages 13-14 of Exhibit 13)

Consolidated Statements of Cash Flows—Years Ended December 31, 2002, 2001, and 2000 (page 28) (page 15 of Exhibit 13)

Consolidated Statements of Comprehensive Income—Years Ended December 31, 2002, 2001, and 2000 (page 29) (page 16 of Exhibit 13)

Segment Information (page 30) (page 17 of Exhibit 13)

Notes to Consolidated Financial Statements (pages 33-46) (pages 20-35 of Exhibit 13)

(a)2. Financial Statement Schedules

The consolidated financial statement schedules of the Company and its subsidiaries have been omitted because they are not required, are inapplicable, or are adequately explained in the financial statements.

Financial statements of interests of 50 percent or less, which are accounted for by the equity method, have been omitted because they do not, considered in the aggregate as a single subsidiary, constitute a significant subsidiary.

(a)3. Exhibits

3.1	Amended Articles of Incorporation
3.2	By-laws
4.1	Rights Agreement dated as of July 20, 1998, between Eli Lilly and Company and Norwest Bank Minnesota, N.A., as Successor Rights Agent
4.2	Form of Indenture with respect to Debt Securities dated as of February 1, 1991, between Eli Lilly and Company and Citibank, N.A., as Trustee
4.3	Form of Standard Multiple-Series Indenture Provisions dated, and filed with the Securities and Exchange Commission on, February 1, 1991
4.4	Form of Fiscal and Paying Agency Agreement dated February 7, 1995, between Eli Lilly and Company and Citibank, N.A., Fiscal and Paying Agent, including forms of Notes, relating to 8-3/8% Notes Due February 7, 2005[1]
4.5	Form of Indenture with respect to Capital Securities dated August 5, 1999 between Lilly del Mar, Inc. and Citibank, N.A., as Trustee[1]
4.6	Form of Resettable Coupon Capital Security due 2029 of Lilly del Mar, Inc.[1]
4.7	Form of Floating Rate Capital Security due 2029 of Lilly del Mar, Inc.[1]
4.8	Form of Fiscal Agency Agreement dated March 22, 2001, between Eli Lilly and Company and Citibank, N.A., Fiscal Agent, relating to Puttable Reset Securities PURSsm due March 22, 2011[1]
4.9	Form of Puttable Reset Securities PURSsm due March 22, 2011[1]
4.10	Form of Fiscal Agency Agreement dated May 30, 2001, between Eli Lilly and Company and Citibank, N.A., Fiscal Agent, relating to Resetable Floating Rate Debt Security due May 15, 2031[1]
4.11	Form of Resetable Floating Rate Debt Security due May 15, 2031[1]
10.1	1989 Lilly Stock Plan, as amended[2]
10.2	1994 Lilly Stock Plan, as amended[2]
10.3	1998 Lilly Stock Plan, as amended[2]
10.4	2002 Lilly Stock Plan[2]

1 This exhibit is not filed with this Report. Copies will be furnished to the Securities and Exchange Commission upon request.

2 Indicates management contract or compensatory plan.

10.5	Lilly GlobalShares Stock Plan, as amended[2]
10.6	The Lilly Deferred Compensation Plan, as amended[2]
10.7	The Lilly Directors' Deferral Plan, as amended[2]
10.8	The Eli Lilly and Company EVA® Bonus Plan, as amended[2,3]
10.9	Eli Lilly and Company Change in Control Severance Pay Plan for Select Employees, as amended[2]
10.10	Letter agreement dated September 17, 2001 between the company and Sidney Taurel, Chairman, President, and Chief Executive Officer, concerning Mr. Taurel's request that his base salary for 2002 be reduced to $1.00[2]
12.	Computation of Ratio of Earnings from Continuing Operations to Fixed Charges
13.	Annual Report to Shareholders for the Year Ended December 31, 2002 (portions incorporated by reference into this Form 10-K)
21.	List of Subsidiaries
23.	Consent of Independent Auditors
99.1	Cautionary Statement under Private Securities Litigation Reform Act of 1995 — "Safe Harbor" for Forward-Looking Disclosures
99.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

The Company filed no reports on Form 8-K during the fourth quarter of 2002.

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3 EVA® is a registered trademark of Stern Stewart & Co.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Eli Lilly and Company

By s/Sidney Taurel

Sidney Taurel, Chairman of the Board,
President and Chief Executive Officer

March 19, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 19, 2003 by the following persons on behalf of the Registrant and in the capacities indicated.

Signature	Title
s/ Sidney Taurel SIDNEY TAUREL	Chairman of the Board, President, Chief Executive Officer, and a Director (principal executive officer)
s/Charles E. Golden CHARLES E. GOLDEN	Executive Vice President, Chief Financial Officer, and a Director (principal financial officer)
s/Arnold C. Hanish ARNOLD C. HANISH	Chief Accounting Officer (principal accounting officer)
s/Steven C. Beering STEVEN C. BEERING, M.D.	Director
s/ Sir Winfried F. W. Bischoff SIR WINFRIED F. W. BISCHOFF	Director
s/Martin S. Feldstein MARTIN S. FELDSTEIN, Ph.D.	Director

Signature	Title
s/George M. C. Fisher	Director
GEORGE M. C. FISHER	
s/Karen N. Horn	Director
KAREN N. HORN, Ph.D.	
s/Alfred G. Gilman	Director
ALFRED G. GILMAN, M.D., Ph.D.	
s/Ellen R. Marram	Director
ELLEN R. MARRAM	
s/Franklyn G. Prendergast	Director
FRANKLYN G. PRENDERGAST, M.D., Ph.D.	
s/Kathi P. Seifert	Director
KATHI P. SEIFERT	
s/August M. Watanabe	Director
AUGUST M. WATANABE, M.D.	

Certifications

I, Sidney Taurel, chairman of the board, president, and chief executive officer, certify that:

1. I have reviewed this annual report on Form 10-K of Eli Lilly and Company;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies in the design or operation of internal controls which could adversely affect registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 19, 2003

By: /s/ Sidney Taurel

Sidney Taurel
Chairman of the Board, President,
and Chief Executive Officer

I, Charles E. Golden, executive vice president and chief financial officer, certify that:

1. I have reviewed this annual report on Form 10-K of Eli Lilly and Company;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies in the design or operation of internal controls which could adversely affect registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 19, 2003

By: /s/ Charles E. Golden

Charles E. Golden
Executive Vice President
and Chief Financial Officer

Trademarks Used In This Report

Trademarks or service marks owned by Eli Lilly and Company or its subsidiaries or affiliates, when first used in this Report, appear with an initial capital and are followed by the symbol ® or ™, as applicable. In subsequent uses of the marks in the Report, the symbols are omitted.

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Index to Exhibits

The following documents are filed as part of this report:

Exhibit		Location
3.1	Amended Articles of Incorporation	Incorporated by reference from Exhibit 3 to the Company's Report on Form 10-Q for the quarter ended September 30, 1998
3.2	By-laws	Incorporated by reference from Exhibit 3 to the Company's Report on Form 10-Q for the quarter ended June 30, 2001
4.1	Rights Agreement dated as of July 20, 1998, between Eli Lilly and Company and Norwest Bank Minnesota, N. A., as Successor Rights Agent	Incorporated by reference from Exhibit 1 to the Company's Report on Form 8-K filed July 23, 1998
4.2	Form of Indenture with respect to Debt Securities dated as of February 1, 1991, between Eli Lilly and Company and Citibank, N.A., as Trustee	Incorporated by reference from Exhibit 4.1 to the Company's Registration Statement on Form S-3, Registration No. 33-38347
4.3	Form of Standard Multiple-Series Indenture Provisions dated, and filed with the Securities and Exchange Commission on February 1, 1991	Incorporated by reference from Exhibit 4.2 to the Company's Registration Statement on Form S-3, Registration No. 33-38347
4.4	Form of Fiscal and Paying Agency Agreement dated February 7, 1995, between Eli Lilly and Company and Citibank, N.A., Fiscal and Paying Agent, including forms of Notes, relating to 8-3/8% Notes Due February 7, 2005	*
4.5	Form of Indenture with respect to Capital Securities dated August 5, 1999, between Lilly del Mar, Inc. and Citibank, N.A., as Trustee	*

Exhibit		Location
4.6	Form of Resettable Coupon Capital Security due 2029 of Lilly del Mar, Inc.	*
4.7	Form of Floating Rate Capital Security due 2029 of Lilly del Mar, Inc.	*
4.8	Form of Fiscal Agency Agreement dated March 22, 2001, between Eli Lilly and Company and Citibank, N.A., Fiscal Agent, relating to Puttable Reset Securities PURS[sm] due March 22, 2021	*
4.9	Form of Puttable Reset Securities PURS[sm] due March 22, 2021	*
4.10	Form of Fiscal Agency Agreement dated May 30, 2001, between Eli Lilly and Company and Citibank, N.A., Fiscal Agent, relating to Resettable Floating Rate Debt Security due May 15, 2031	*
4.11	Form of Resettable Floating Rate Debt Security due May 15, 2031	*
10.1	1989 Lilly Stock Plan, as amended	Incorporated by reference from Exhibit 10.1 to the Company's report on Form 10-K for the year ended December 31, 2000
10.2	1994 Lilly Stock Plan, as amended	Incorporated by reference from Exhibit 10.1 to the Company's Report on Form 10-Q for the quarter ended September 30, 2001
10.3	1998 Lilly Stock Plan, as amended	Incorporated by reference from Exhibit 10.2 to the Company's Report on Form 10-Q for the quarter ended September 30, 2001

Exhibit		Location
10.4	2002 Lilly Stock Plan	Incorporated by reference from the Appendix to the Company's Proxy Statement dated March 4, 2002
10.5	The Lilly GlobalShares Stock Plan	Attached
10.6	The Lilly Deferred Compensation Plan, as amended	Incorporated by reference from Exhibit 10.4 to the Company's Report on Form 10-K for the year ended December 31, 2001
10.7	The Lilly Directors' Deferral Plan, as amended	Incorporated by reference from Exhibit 10 to the Company's Report on Form 10-Q for the quarter ended September 30, 2002
10.8	The Eli Lilly and Company EVA® Bonus Plan, as amended	Incorporated by reference from Exhibit 10.6 to the Company's Report on Form 10-K for the year ended December 31, 2001
10.9	Eli Lilly and Company Change in Control Severance Pay Plan for Select Employees, as amended	Incorporated by reference from Exhibit 10.3 to the Company's Report on Form 10-Q for the quarter ended September 30, 2001
10.10	Letter Agreement dated September 17, 2001 between the Company and Sidney Taurel, Chairman, President, and Chief Executive Officer, concerning Mr. Taurel's request that his base salary for 2002 be reduced to $1.00	Incorporated by reference from Exhibit 10.4 to the Company's Report on Form 10-Q for the quarter ended September 30, 2001
12.	Statement regarding Computation of Ratio of Earnings from Continuing Operations to Fixed Charges	Attached
13.	Annual Report to Shareholders for the Year Ended December 31, 2002 (portions incorporated by reference in this Form 10-K)	Attached
21.	List of Subsidiaries	Attached
23.	Consent of Independent Auditors	Attached

Exhibit		Location
99.1	Cautionary Statement Under Private Securities Litigation Reform Act of 1995 — “Safe Harbor” for Forward-Looking Disclosures	Attached
99.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Attached

* Not filed with this report. Copies will be furnished to the Securities and Exchange Commission upon request.

EXHIBIT 10.5

LILLY GLOBALSHARES STOCK PLAN

AS AMENDED AND RESTATED THROUGH SEPTEMBER 17, 2002

The Lilly GlobalShares Stock Plan ("Plan") authorizes Eli Lilly and Company and its subsidiaries ("Company") to provide certain employees of the Company with shares of Eli Lilly and Company common stock or options to acquire such shares. The Company believes that this incentive program will cause those persons to contribute materially to the growth of the Company, thereby benefiting its shareholders.

1. ADMINISTRATION.

The Plan shall be administered and interpreted by the Administrator. The Administrator shall be the Senior Vice President of Human Resources of the Company, or such other executive officer or officers of the Company as may be designated from time to time by the Board of Directors of the Company. The Administrator shall determine the fair market value of Eli Lilly and Company common stock ("Lilly Stock") for purposes of the Plan. The Administrator may, subject to the provisions of the Plan, from time to time establish such rules and regulations as he or she deems appropriate for the proper administration of the Plan. The decisions of the Administrator with respect to the interpretation and administration of the Plan and any Grant under it, including the severability of any or all of the provisions of either, shall be final, conclusive and binding.

2. GRANTS.

Grants under the Plan ("Grants") shall consist of options to purchase Lilly Stock ("Options") and grants of Lilly Stock ("Stock Grants"). All Grants shall be subject to the terms and conditions set out herein and to such other terms and conditions consistent with this Plan as the Administrator deems appropriate. The Administrator shall approve the form and provisions of each Grant. Grants under the Plan need not be uniform.

3. ELIGIBILITY FOR GRANTS.

Eligible employees under the Plan ("Eligible Employees") shall be all employees of the Company on a Grant Date (as defined in Sections 5(a) and 6(b)) who are not then executive officers or employed in a global management level ("G level") job; provided, however, that the Administrator shall not be an Eligible Employee. The Administrator shall in his or her discretion select the persons to be given Grants ("Grantees") from among the Eligible Employees and, subject to Sections 5(b) and 6(a), determine the number of shares subject to any particular Grant.

4. SHARES AVAILABLE FOR GRANTS.

(a) Shares Subject to Issuance or Transfer. Subject to adjustment as provided in Section 4(b), the aggregate number of shares of Lilly Stock that may be issued or transferred under the Plan is 14,000,000. The shares may be authorized but unissued shares or treasury shares. The number of shares available for Grants at any given time shall be 14,000,000, reduced by the aggregate of all shares previously issued or transferred, together with shares which may become subject to issuance or transfer under then-outstanding Grants.

(b) Recapitalization Adjustment. If any subdivision or combination of shares of Lilly Stock or any stock dividend, capital reorganization, recapitalization, consolidation, or merger with the Company as the surviving corporation occurs, or if additional shares or new or different shares or other securities of the Company or any other issuer are distributed with respect to shares of Lilly Stock through a spin-off, split-off, or other extraordinary distribution, the Administrator shall make such adjustments as he or she determines appropriate in the number of shares of Lilly Stock that may be issued or transferred in the future under Section 4(a) and the number of shares of Lilly Stock specified in Sections 5(b) and 6(a). The Administrator shall also make appropriate adjustments in the number of shares, and Option Price if applicable, in all outstanding Grants made before the event.

5. TERMS OF OPTIONS.

(a) Option Price. The price at which Lilly Stock may be purchased by the Grantee under an Option ("Option Price") shall be not less than the fair market value of Lilly Stock on the date the Option is granted (the "Grant Date"). In the Administrator's discretion, the Grant Date of an Option may be established as the date on which the Administrator approves the Option or any other date specified by the Administrator.

(b) Number of Shares. The Administrator shall determine the number of shares of Lilly Stock that are subject to each Option.

(c) Option Exercise Period. The Administrator shall determine the option exercise period of each Option. The period shall not exceed eleven years from the Grant Date.

(d) Exercise of Option. The Administrator shall establish approved forms of notice of exercise ("Notice of Exercise"), which may be written (including telecopied), electronic or telephonic, and shall establish procedures for determining what constitutes delivery of such Notice. The Administrator may require different forms of Notice of Exercise for employees residing in different countries. A Grantee may exercise an Option by duly delivering an approved form of Notice of Exercise to the Company, either with or without accompanying payment of the Option Price, subject to the requirements of subsection (e) below. The Notice of Exercise, once delivered, shall be irrevocable; provided, however, that the Company may deem an attempted exercise to be null and void pursuant to subsection (e) below or if the Company or its agent determines in its discretion that the gain to be received by the Grantee upon exercise is not likely to be sufficient to cover the costs of exercise.

(e) Satisfaction of Option Price. The Grantee shall pay the Option Price in United States dollars. The Administrator shall establish rules and procedures for the payment of the Option Price ("Payment Procedures"). The Payment Procedures may require payment of the Option Price at the time of the Notice of Exercise or may establish a time period following the Notice of Exercise within which the Option Price must be paid. The Payment Procedures may, but need not, include procedures permitting payment of the Option Price by sale of shares of Lilly Stock received upon exercise or by withholding shares of Lilly Stock that would otherwise be issued or transferred upon exercise. If the Grantee fails to pay the Option Price in accordance with the Payment Procedures, the Administrator shall have the right to take whatever action it deems appropriate, including voiding the Option exercise. The Company shall not issue or transfer shares of Lilly Stock upon exercise of an Option until the Option Price and applicable withholding taxes have been fully paid in accordance with the Payment Procedures.

6. STOCK GRANTS.

The Administrator may make Stock Grants to Eligible Employees. The following provisions are applicable to Stock Grants:

(a) Number of Shares. The Administrator shall determine and include in the Grant the number of shares subject to a Stock Grant. The number may be fixed or it may be dependent upon changes in the market price of Lilly Stock during a period of time selected by the Administrator (the "Award Period").

(b) Grant Date and Payment Date. The Administrator shall select a Grant Date for a Stock Grant and a date of payment of a Stock Grant ("Payment Date"), which, in the case of a Stock Grant based on an Award Period, shall be after the end of the Award Period.

(c) Requirement of Employment. To be entitled to receive payment under a Stock Grant, a Grantee must remain in the employment of the Company to the Payment Date, except that the Administrator may provide for partial or complete exceptions to this requirement as he or she deems equitable in his or her sole discretion.

(d) Transfer Restrictions. In his or her discretion, the Administrator may impose restrictions on subsequent transfer by the Grantee of shares received upon payment of a Stock Grant. The restrictions shall remain in force for a period of time selected by the Administrator (the "Restriction Period") and may include a requirement that the shares be returned to the Company if the Grantee does not remain employed by the Company to the end of the Restriction Period. The Administrator may require legended certificates, stop-transfer instructions, escrow arrangements or other procedures he or she deems necessary to enforce the restrictions.

7. AMENDMENT AND TERMINATION OF THE PLAN.

(a) Amendment. The Company's Board of Directors ("Board") may amend the Plan at any time. The Compensation Committee of the Board of Directors may amend the provisions of the Plan other than Sections 1 and 4 and this Section 7 at any time.

(b) Termination of Plan. This Plan shall remain in effect until terminated by the Board.

(c) Termination and Amendment of Outstanding Grants. An expiration, termination or amendment of the Plan that occurs after a Grant is made shall not result in the termination or amendment of the Grant unless the Grantee consents or unless the Administrator acts under Section 8(d). The expiration or termination of the Plan shall not impair the power and authority of the Administrator with respect to outstanding Grants. Whether or not the Plan has expired or terminated, an outstanding Grant may be terminated or amended under Section 8(d), or may be amended (i) by agreement of the Company and the Grantee consistent with the Plan, or (ii) by action of the Administrator provided that the amendment is consistent with the Plan; is found by the Administrator to be necessary or advisable to carry out the purposes of the Plan or for the effective administration of the Plan; and is found by the Administrator not to diminish the rights of the Grantee or the value of the Grant.

8. GENERAL PROVISIONS.

(a) Prohibitions Against Transfer. Only a Grantee or his or her authorized representative may exercise rights under a Grant. Such persons may not transfer those rights. The rights under a Grant may not be disposed of by transfer, alienation, pledge, encumbrance, assignment, or any other means, whether

voluntary, involuntary, or by operation of law; provided, however, that when a Grantee dies, the personal representative or other person entitled under a Grant under the Plan to succeed to the rights of the Grantee ("Successor Grantee") may exercise the rights. A Successor Grantee must furnish proof satisfactory to the Company of his or her right to succeed to the Grantee's rights under the Grant under the Grantee's will or under the applicable laws of descent and distribution.

(b) Subsidiaries. For purposes of this Plan, the term "subsidiary" means a corporation of which Eli Lilly and Company owns directly or indirectly 50% or more of the voting power.

(c) Fractional Shares. Fractional shares shall not be issued or transferred under a Grant, but the Administrator may pay cash in lieu of a fraction or round the fraction.

(d) Compliance with Law; Taxes. The Plan, the grant and exercise of Options, the grant and payment of Stock Grants, and the obligations of the Company to issue or transfer shares of Lilly Stock under Grants shall be subject to all applicable laws and to approvals by any governmental or regulatory agency, stock exchange or banking authority as may be required. The Administrator may revoke any Grant if it is contrary to law or modify any Grant to bring it into compliance with any valid and applicable law or government regulation. The Administrator may also adopt rules regarding the withholding of taxes on payment to Grantees. Such rules may, but need not, include procedures permitting or requiring withholding obligations to be satisfied by sale of Lilly Stock issued or transferred upon exercise or by withholding shares of Lilly Stock that would otherwise be issued or transferred upon exercise of Options or payment of Stock Grants.

(e) Ownership of Stock. A Grantee or Successor Grantee shall have no rights as a shareholder of the Company with respect to any shares of Lilly Stock covered by a Grant until the shares are issued or transferred to the Grantee or Successor Grantee on the Company's books.

(f) No Right to Employment. The Plan and the Grants under it shall not confer upon any Grantee the right to continue in the employment of the Company or affect in any way the right of the Company to terminate the employment of a Grantee at any time with or without notice or cause and without payment of further compensation.

(g) No Rights to Option Grants or Other Compensation. Nothing in this Plan shall be deemed to create an obligation of the Company to make Grants or a right of any individual to receive Grants, even if that individual is an Eligible Employee, except to the extent, if any, the Administrator may determine in his or her discretion to make a Grant pursuant to the provisions of this Plan. The receipt of a Grant by any individual shall not create any rights or entitlement to any future Grants or other compensation, it being understood that the Administrator may determine in his or her discretion pursuant to the provisions of this Plan whether to make Grants and, if so, shall in his or her discretion select the Grantees, and it being further understood that the Board may amend or terminate this Plan at any time.

(h) Foreign Employees. Notwithstanding anything to the contrary, the Administrator may make Grants to Eligible Employees or other employees of the Company (except for executive officers) who are not United States citizens or residents on such terms and conditions as may, in the judgment of the Administrator, be necessary or desirable to foster the purposes of the Plan. Option Grants made pursuant to this section may vary from the terms otherwise required in Sections 5(a), (d), or (e). In furtherance of the purposes of the Plan, the Administrator may adopt such modifications to the terms of Grants and such rules, procedures and guidelines, and take or cause to be taken any and all actions as the Administrator deems necessary or advisable to comply with foreign laws and practices or with United States laws that affect Grants made to such foreign employees.

(i) Governing Law; English Language Controls. The validity and construction of this Plan and all Grants made hereunder shall be governed by the laws of the State of Indiana, regardless of the citizenship or residence of any Grantee or Successor Grantee and regardless of the conflict-of-laws provisions of the State of Indiana. This Plan and Grants under this Plan may be translated into other languages for the convenience of Grantees. Such translations shall have no legal force and effect, it being understood that the English language versions of this Plan and the Grants shall control.

(j) Effective Date of the Plan. The Plan became effective as of January 1, 1999. The amended and restated Plan becomes effective as of September 17, 2002.

EXHIBIT 12. STATEMENT RE: COMPUTATION OF RATIO OF EARNINGS FROM CONTINUING OPERATIONS TO FIXED CHARGES

Eli Lilly and Company and Subsidiaries
(Dollars in millions)

	Years Ended December 31,				
	2002	2001	2000	1999	1998
Consolidated pretax income from continuing operations before extraordinary item	$3,457.7	$3,552.1	$3,858.7	$3,245.4	$2,665.0
Interest from continuing operations and other fixed charges	140.0	208.1	225.4	213.1	198.3
Less interest capitalized during the period from continuing operations	(60.3)	(61.5)	(43.1)	(29.3)	(17.0)
Earnings	$3,537.4	$3,698.7	$4,041.0	$3,429.2	$2,846.3
Fixed charges[1]	$ 140.0	$ 208.1	$ 225.4	$ 213.2	$ 200.5
Ratio of earnings to fixed charges	25.3	17.8	17.9	16.1	14.2

[1] Fixed charges include interest from continuing operations for all years presented and preferred stock dividends for 1998 and 1999.

EXHIBIT 13. ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR ENDED DECEMBER 31, 2002

REVIEW OF OPERATIONS

OPERATING RESULTS — 2002

SUMMARY

Net income was $2.71 billion, or $2.50 per share, in 2002 and $2.78 billion, or $2.55 per share, in 2001, representing a decline of 3 percent and 2 percent, respectively. Comparisons between 2002 and 2001 are made difficult by the impact of several unusual items that are reflected in our operating results for both years. Excluding these unusual items, which are discussed further below, net income for 2002 and 2001 would have been $2.76 billion, or $2.55 per share, and $3.01 billion, or $2.76 per share, respectively. This represents a decrease in net income and earnings per share of 8 percent. Adjusted net income and earnings per share for 2002 declined, primarily due to the result of lower sales of Prozac, an antidepressant, partially offset by sales growth of several key products, lower interest expense and lower operating expenses. Earnings per share for 2002 benefited slightly from a lower number of shares outstanding, resulting from our share repurchase program.

UNUSUAL ITEMS

As noted above, several unusual items are reflected in our operating results for 2002 and 2001. These transactions are summarized as follows (see Notes 3, 4, and 6 to the consolidated financial statements for additional information).

2002

- Pretax charge of $84.0 million for acquired in-process research and development related to a collaboration arrangement with Amylin Pharmaceuticals, Inc. (Amylin), in the third quarter of 2002, which decreased earnings per share by approximately $.05 in the third quarter of 2002

2001

- Pretax charges of $190.5 million for acquired in-process research and development related to collaboration arrangements with Isis Pharmaceuticals, Inc. (Isis); Minnesota Mining and Manufacturing Company (3M); and Bioprojet, Société Civile de Recherche (Bioprojet), in the third and fourth quarters of 2001, which decreased earnings per share by approximately $.05 in the third quarter and $.06 in the fourth quarter of 2001

- Pretax charges of $121.4 million associated with asset impairment and other site charges in the third quarter of 2001 due to actions taken as a result of the assessment of our worldwide manufacturing capacity, which decreased earnings per share by approximately $.07 in the third quarter of 2001

- An extraordinary charge of $45.2 million ($29.4 million net of income taxes) from the repurchase of higher interest rate debt in the third and fourth quarters of 2001, which decreased earnings per share by approximately $.02 in the third quarter and $.01 in the fourth quarter of 2001

Following is a reconciliation of reported and adjusted earnings per share:

Year Ended December 31	2002	2001	2000
Diluted earnings per share (as reported)	**$2.50**	$2.55	$2.79
Unusual items:			
Acquired in-process research and development	**.05**	.11	—
Asset impairment and other site charges	**—**	.07	—
Early retirement of debt	**—**	.03	—
Year 2000 wholesaler stocking (see Operating Results — 2001)	**—**	—	.06
Gain from sale of WebMD stock (see Operating Results — 2001)	**—**	—	(.20)
Diluted earnings per share (as adjusted)	**$2.55**	$2.76	$2.65

SALES

Our reported worldwide sales for 2002 decreased 4 percent, to $11.08 billion, due primarily to the decline in sales of Prozac in the U.S. resulting from the loss of patent protection in August 2001. Partially offsetting this decline was sales growth of Zyprexa, a

treatment for schizophrenia and acute bipolar mania; diabetes care products; Gemzar, an oncolytic product; Evista, an osteoporosis treatment and prevention agent; and Xigris, a treatment we launched in late 2001 for adult severe sepsis patients at high risk of death. Sales in the U.S. decreased 11 percent, to $6.54 billion. Sales outside the U.S. increased 9 percent, to $4.54 billion. Excluding Prozac, our worldwide and U.S. sales increased 8 percent and 7 percent, respectively. Worldwide sales reflected a volume decline of 4 percent while global selling prices and exchange rates remained essentially flat.

Zyprexa had worldwide sales of $3.69 billion in 2002, representing an increase of 20 percent. Sales in the U.S. increased 16 percent, to $2.53 billion. Sales outside the U.S. increased 27 percent, to $1.16 billion, benefiting, in part, from the launch of Zyprexa in Japan during the second quarter of 2001. At the end of June 2002, our European sales forces began promoting Zyprexa for use in treating manic episodes associated with bipolar disorder.

Diabetes care products, composed primarily of Humulin®, biosynthetic human insulin; Humalog, our insulin analog; and Actos, an oral agent for the treatment of type 2 diabetes, had aggregate worldwide revenues of $2.29 billion in 2002, representing an increase of 8 percent. Diabetes care revenues in the U.S. increased 5 percent, to $1.43 billion. Diabetes care revenues outside the U.S. increased 12 percent, to $859.2 million. Humulin had worldwide sales of $1.00 billion, representing a decrease of 5 percent due to the continued shift by patients to Humalog and Humalog mixture products and to increased competition. Humulin sales in the U.S. decreased 11 percent, to $515.4 million. Humulin sales outside the U.S. increased 1 percent, to $488.6 million. Humalog had worldwide sales of $834.2 million, representing an increase of 33 percent. Humalog sales in the U.S. increased 34 percent, to $528.3 million. Humalog sales outside the U.S. increased 31 percent, to $305.9 million. We received service revenues of $391.7 million in 2002, an increase of 9 percent, relating to sales of Actos. Actos is manufactured by Takeda Chemical Industries, Ltd., and sold in the U.S. by Takeda Pharmaceuticals North America (Takeda). We copromote Actos in the U.S. with Takeda.

Gemzar had worldwide sales of $874.6 million in 2002, representing an increase of 21 percent, driven primarily by strong underlying product demand. Sales in the U.S. increased 16 percent, to $482.1 million. Sales outside the U.S. increased 28 percent, to $392.5 million.

Evista had worldwide sales of $821.9 million in 2002, representing an increase of 24 percent. Sales in the U.S. increased 19 percent, to $626.1 million. Sales outside the U.S. increased 41 percent, to $195.8 million. Sales benefited from strong underlying product demand driven, in part, by competitive developments in the second half of 2002.

Prozac, Prozac Weekly™, and Sarafem®, a prescription treatment for premenstrual dysphoric disorder, a severe form of premenstrual syndrome (collectively, fluoxetine product(s)), had combined worldwide sales of $733.7 million, representing a decrease of 63 percent. Fluoxetine product sales in the U.S. decreased 73 percent, to $451.7 million, due to generic competition for Prozac beginning in early August 2001. Fluoxetine product sales outside the U.S. decreased 15 percent, to $282.0 million, primarily due to continuing generic competition.

Anti-infectives had worldwide sales of $577.4 million in 2002, representing a decrease of 23 percent. Sales in the U.S. of anti-infectives decreased 55 percent, to $58.5 million. Sales outside the U.S. decreased 16 percent, to $518.9 million. Lower sales of anti-infectives were due to continuing competitive pressures and to manufacturing and supply issues with respect to certain injectable antibiotics.

ReoPro® had worldwide sales of $384.0 million in 2002, representing a decrease of 11 percent. Sales in the U.S. decreased 20 percent, to $248.3 million, due to continuing competitive pressures, and sales outside the U.S. increased 14 percent, to $135.7 million.

At the end of November 2001, we received approval from the U.S. Food and Drug Administration (FDA) for Xigris and launched the product in the United States. In August 2002, the European Commission granted marketing authorization for Xigris in all 15 member states of the European Union. In October, we launched Xigris in a number of European countries. Worldwide Xigris sales were $100.2 million in 2002 compared with $21.2 million in 2001. Sales in the U.S. were $89.3 million in 2002.

Animal health products had worldwide sales of $693.1 million in 2002, representing an increase of 1 percent. Sales in the U.S. decreased 6 percent, to $304.2 million, due primarily to declines in our cattle and swine products. Sales outside the U.S. increased 7 percent, to $388.9 million.

Payments under federally mandated Medicaid rebate programs reduced 2002 sales by approximately $438.2 million compared with approximately $475.0 million in 2001. This decline was primarily due to the loss of Prozac sales after the patent expiration.

GROSS MARGIN, COSTS, AND EXPENSES

The 2002 gross margin decreased to 80.4 percent of sales compared with 81.3 percent for 2001. This decrease was attributed primarily to the decline in sales of Prozac, a higher margin product, and increased costs associated with current Good Manufacturing

Practices (cGMP) improvements, costs associated with capacity increases for certain growth and new products, and higher inventory losses. These declines in gross margin were partially offset by favorable changes in product mix due to growth in sales of other higher margin products, such as Zyprexa, Gemzar, Evista, and diabetes care products, and favorable manufacturing throughput from increased volume of product manufactured.

Operating expenses (the aggregate of research and development and marketing and administrative expenses) decreased 1 percent in 2002. Research and development expenses decreased 4 percent, to $2.15 billion, due primarily to lower late-stage clinical trial costs as more products were awaiting regulatory approval. Despite the decline, we invested approximately 19 percent of our sales in research and development efforts in 2002. Marketing and administrative expenses remained essentially flat compared with 2001 despite the continued expansion of our worldwide sales force and increased marketing efforts in support of our growth products and upcoming product launches. Operating expenses were also reduced due to lower incentive compensation expenses, reimbursement from collaboration partners, and cost containment, none of which were individually material.

During 2002, we expensed $84.0 million for acquired in-process research and development costs related to a collaboration arrangement with Amylin to develop and commercialize a potential new treatment for type 2 diabetes. The compound acquired in this collaboration agreement is in the development phase and no alternative future uses were identified.

Net other income for 2002 was $293.7 million, an increase of $13.0 million. The increase was primarily due to a combination of income recognized from upfront and milestone payments from Quintiles Transnational Corp. (Quintiles) as part of the Cymbalta commercialization agreement, discussed further in Other Matters, and income recognized from InterMune, Inc., related to the 2001 oritavancin out-license agreement, offset primarily by lower interest income due to lower interest rates.

Interest expense for 2002 decreased $66.8 million, to $79.7 million, primarily due to lower variable interest rates paid on our debt.

The effective tax rate for 2002 was 21.7 percent compared with 20.9 percent for 2001. Excluding the unusual items discussed previously, the effective tax rate was 22.0 percent for both years. See Note 11 to the consolidated financial statements for additional information.

OPERATING RESULTS — 2001

SUMMARY

Net income was $2.78 billion, or $2.55 per share, in 2001 and $3.06 billion, or $2.79 per share, in 2000. Comparisons between 2001 and 2000 are made difficult by the impact of several unusual items that are reflected in our operating results for both years. Excluding these unusual items, which are discussed further below, net income for 2001 and 2000 would have been $3.01 billion, or $2.76 per share, and $2.90 billion, or $2.65 per share, respectively. This represents an increase in net income and earnings per share of 4 percent. The 2001 increases are attributed to growth in sales, offset, in part, by operating expenses increasing at a rate greater than sales growth.

UNUSUAL ITEMS

As noted above, several unusual items are reflected in our operating results for 2001 and 2000. The unusual items relating to 2001 are summarized under Operating Results — 2002. The 2000 unusual items are summarized as follows. See Note 3 to the consolidated financial statements for additional information.

2000

- A gain of $214.4 million on the sale of our interest in Kinetra LLC to WebMD Corporation (WebMD) and the subsequent sale of WebMD stock, which increased earnings per share by approximately $.20 in the first quarter of 2000

- Approximately $91 million in additional product sales in 1999 as a result of year-2000-related wholesaler buying that normally would have been realized during the first quarter of 2000, which increased earnings per share by approximately $.06 in the fourth quarter of 1999 and reduced earnings per share by the same amount in the first quarter of 2000

SALES

Reported worldwide sales for 2001 increased 6 percent, to $11.54 billion. Worldwide sales for 1999 included approximately $91 million of sales relating to year-2000 wholesaler buying that normally would have been recognized in 2000. Adjusting for the impact of year-2000 wholesaler buying, sales growth for 2001 would have been 5 percent. Zyprexa, diabetes care products, Gemzar, and Evista led sales growth. Sales in the U.S. increased 5 percent, to $7.36 billion. Sales outside the U.S. increased 8 percent, to $4.18 billion. Both worldwide and U.S. sales growth was offset, in part, by decreased sales of Prozac and anti-infectives. The decrease in Prozac sales was primarily due to the entrance of generic fluoxetine in the U.S. market in early August 2001. Excluding Prozac, our worldwide and U.S. sales increased 17 percent and 22 percent, respectively. Worldwide sales reflected volume growth of 8 percent

and a 1 percent increase in global selling prices, partially offset by a 2 percent decrease in exchange rates. (Percentages do not add due to rounding.)

Zyprexa had worldwide sales of $3.09 billion in 2001, representing an increase of 31 percent. Sales in the U.S. increased 29 percent, to $2.18 billion. Zyprexa sales continued to experience strong growth in the face of an additional competitive product in the U.S. Sales outside the U.S. increased 38 percent, to $910.5 million, benefiting, in part, from the launch of Zyprexa in Japan during the second quarter of 2001.

Diabetes care products had worldwide revenues of $2.13 billion in 2001, representing an increase of 21 percent. Diabetes care revenues in the U.S. increased 27 percent, to $1.37 billion. Diabetes care revenues outside the U.S. increased 12 percent, to $764.8 million. Humulin had worldwide sales of $1.06 billion, representing a decrease of 5 percent due to the continued shift by patients to Humalog and Humalog mixture products and to increased competition. Humulin sales in the U.S. decreased 6 percent, to $578.5 million. Humulin sales outside the U.S. decreased 3 percent, to $482.2 million. Humalog had worldwide sales of $627.8 million, representing an increase of 79 percent. We received service revenues of $360.6 million in 2001, an increase of 62 percent, relating to sales of Actos.

The fluoxetine products had combined worldwide sales of $1.99 billion, representing a decrease of 23 percent. This full-year result included a 66 percent decline in the fourth quarter of 2001. Fluoxetine product sales in the U.S. decreased 26 percent, to $1.66 billion, primarily due to generic competition for Prozac beginning in early August 2001. Fluoxetine product sales outside the U.S. decreased 3 percent, to $330.1 million, primarily due to continuing generic competition.

Gemzar had worldwide sales of $722.9 million in 2001, representing an increase of 29 percent. Sales in the U.S. increased 32 percent, to $417.4 million. Sales outside the U.S. increased 26 percent, to $305.5 million.

Evista had worldwide sales of $664.8 million in 2001, representing an increase of 27 percent. Sales in the U.S. increased 21 percent, to $526.1 million. U.S. sales growth slowed in the second half of the year, primarily due to increased competition. Sales outside the U.S. increased 58 percent, to $138.7 million, primarily due to the launch of Evista as a treatment for postmenopausal osteoporosis in a number of European countries during the second quarter of 2000.

ReoPro had worldwide sales of $431.4 million in 2001, representing an increase of 3 percent. Sales in the U.S. decreased 1 percent, to $312.3 million, due to continued competition. Sales outside the U.S. increased 16 percent, to $119.1 million.

At the end of November 2001, we received approval for Xigris from the FDA and launched the product in the U.S. Initial Xigris sales were $21.2 million in 2001.

Anti-infectives had worldwide sales of $749.5 million in 2001, representing a decrease of 16 percent, due to continuing competitive pressures. Cefaclor and Keflex® accounted for the majority of the decline. Sales in the U.S. of anti-infectives decreased 32 percent, to $128.9 million. Sales outside the U.S. decreased 12 percent, to $620.6 million.

Animal health products had worldwide sales of $686.1 million in 2001, representing an increase of 3 percent. Sales in the U.S. increased 5 percent, to $323.2 million. Sales outside the U.S. remained flat at $362.9 million.

Our payments under federally mandated Medicaid rebate programs reduced 2001 sales by approximately $475.0 million compared with approximately $464.0 million in 2000.

GROSS MARGIN, COSTS, AND EXPENSES

The 2001 gross margin improved to 81.3 percent of sales compared with 81.1 percent for 2000. This increase was attributed primarily to favorable changes in product mix due to growth in sales of higher margin products, such as Zyprexa, Gemzar, Evista, and diabetes care products. The decline in sales of Prozac, also a higher margin product, partially offset these gross margin increases.

Operating expenses increased 8 percent in 2001. Investment in research and development expenses increased 11 percent, to $2.24 billion, as we continued to invest in our promising product pipeline. Marketing and administrative expenses increased 6 percent. Expansion of the worldwide sales force and increased marketing efforts in support of our growth products and upcoming product launches offset a slight decline in administrative expenses. The growth rates of both research and development expenses and marketing and administrative expenses were diminished by reduced incentive compensation expenses resulting from lower growth in earnings.

During 2001, we recorded $190.5 million for acquired in-process research and development charges related to collaboration arrangements with Isis, 3M, and Bioprojet. The compounds acquired in these collaboration agreements are in the development phase and no alternative future uses were identified.

Net other income for 2001 was $280.7 million, an increase of $12.8 million, excluding the gain on the sale of Kinetra LLC in 2000. The increase was primarily due to an increase in interest income.

Our effective tax rate for 2001 was 20.9 percent compared with 20.8 percent for 2000. Excluding the unusual items discussed previously, the effective tax rate was 22.0 percent for both years. See Note 11 to the consolidated financial statements for additional information.

FINANCIAL CONDITION

As of December 31, 2002, cash, cash equivalents, and short-term investments totaled approximately $3.65 billion compared with $3.73 billion at December 31, 2001. The decrease in cash was primarily due to the purchase of investments, dividends paid, share repurchases, capital expenditures, and taxes paid, which together exceeded cash generated from operations and debt issuances. We acquired approximately 4.5 million shares, for approximately $389.2 million, during 2002 pursuant to our previously announced $3 billion share repurchase program. We have now completed $1.80 billion of purchases in connection with that program.

Our receivables increased by $264.1 million during 2002, to $1.67 billion, due primarily to increased sales of key growth products in December 2002, reduced allowances due to a significant customer payment, and foreign currency translation adjustments.

Our inventories increased by $435.2 million during 2002, to $1.50 billion, due to foreign currency translation adjustments, increased inventory requirements for our growth products, and inventory associated with products for which we have received approvals or approvable letters.

Total debt at December 31, 2002, was $4.90 billion, an increase of $1.49 billion from December 31, 2001. The increase in long-term debt was primarily due to the issuance of $500 million of 10-year notes in March 2002; a 5-year $543 million private placement note in July 2002; $150 million of floating rate bonds in July 2002, maturing in 2031; and the change in fair value of debt hedged with interest rate swaps designated as fair value hedges. Our current debt ratings from Standard & Poor’s and Moody’s remain at AA and Aa3, respectively.

Capital expenditures of $1.13 billion during 2002 were $246.9 million more than in 2001 as we continued to invest in manufacturing and research and development initiatives and related infrastructure. We expect near-term capital expenditures to increase from 2002 levels.

Certain of our current contractual obligations will require future cash payments as follows:

	Payments due by period				
	Total	2003	2004-2005	2006-2007	2008 and thereafter
Principal payments on debt, including capital leases	$4,669.6	$545.4	$412.6	$772.4	$2,939.2
Share repurchase commitments	281.1	281.1	—	—	—
Noncancelable operating leases	260.3	58.3	80.7	62.7	58.6
Loans to collaboration partners	52.5	26.3	26.2	—	—

Dividends of $1.24 per share were paid in 2002, an increase of 11 percent from the $1.12 per share paid in 2001. In the fourth quarter of 2002, effective for the first-quarter dividend in 2003, the quarterly dividend was increased to $.335 per share (an 8 percent increase), resulting in an indicated annual rate for 2003 of $1.34 per share. The year 2002 was the 118th consecutive year in which we made dividend payments and the 35th consecutive year in which dividends have been increased.

We believe that cash generated from operations, along with available cash and cash equivalents, will be sufficient to fund most of our operating needs, including debt service, share repurchases, capital expenditures, and dividends in 2003. We will issue additional debt in 2003 to fund remaining cash requirements. We believe that, if necessary, amounts available through our existing commercial paper program should be adequate to fund maturities of short-term borrowings. Our commercial paper program is also currently backed by $1.23 billion of unused committed bank credit facilities. Various risks and uncertainties, including those discussed in the Other Matters and Financial Expectations for 2003 sections, may affect our operating results and cash generated from operations.

In the normal course of business, our operations are exposed to fluctuations in interest rates and currency values. These fluctuations can vary the costs of financing, investing, and operating. We address a portion of these risks through a controlled

program of risk management that includes the use of derivative financial instruments. The objective of controlling these risks is to limit the impact on earnings of fluctuations in interest and currency exchange rates. All derivative activities are for purposes other than trading.

Our primary interest rate risk exposure results from changes in short-term U.S. dollar interest rates. In an effort to manage interest rate exposures, we strive to achieve an acceptable balance between fixed and floating rate debt positions and may enter into interest rate derivatives to help maintain that balance. Based on our overall interest rate exposure at December 31, 2002 and 2001, including derivatives and other interest rate risk-sensitive instruments, a hypothetical 10 percent change in interest rates applied to the fair value of the instruments as of December 31, 2002 and 2001, respectively, would have no material impact on earnings, cash flows, or fair values of interest rate risk-sensitive instruments over a one-year period.

Our foreign currency risk exposure results from fluctuating currency exchange rates, primarily the U.S. dollar against the Japanese yen and the euro. We face transactional currency exposures that arise when we enter into transactions, generally on an intercompany basis, denominated in currencies other than the local currency. We also face currency exposure that arises from translating the results of our global operations to the U.S. dollar at exchange rates that have fluctuated from the beginning of the period. We use forward contracts and purchased options to manage our foreign currency exposures. Our policy outlines the minimum and maximum hedge coverage of such exposures. Gains and losses on these derivative positions offset, in part, the impact of currency fluctuations on the existing assets, liabilities, commitments, and anticipated revenues. Considering our derivative financial instruments outstanding at December 31, 2002 and 2001, a hypothetical 10 percent change in exchange rates (primarily against the U.S. dollar) as of December 31, 2002 and 2001, respectively, would have no material impact on earnings, cash flows, or fair values of foreign currency rate risk-sensitive instruments over a one-year period. These calculations do not reflect the impact of the exchange gains or losses on the underlying positions that would be offset, in part, by the results of the derivative instruments.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

In preparing our financial statements in accordance with generally accepted accounting principles (GAAP), we must often make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures at the date of the financial statements and during the reporting period. Some of those judgments can be subjective and complex, and consequently actual results could differ from those estimates. For any given individual estimate or assumption we make, there may also be other estimates or assumptions that are reasonable; however, we believe that, given current facts and circumstances, it is unlikely that applying any such other reasonable judgment would cause a material adverse effect on our consolidated results of operations, financial position, or liquidity for the periods presented in this report.

Our most critical accounting policies include sales rebates and discounts and their impact on revenue recognition, product litigation liabilities and other contingencies, pension and retiree medical benefit costs, and the recoverability of deferred tax assets. We have discussed the nature and the inherent judgment used in the application of our critical accounting policies with our audit committee.

SALES REBATES AND DISCOUNT ACCRUALS

Sales rebate and discount accruals are established in the same period as the related sales. The rebate/discount amounts are recorded as a deduction to arrive at our net sales and included in other current liabilities. Sales rebates/discounts that require the use of judgment in the establishment of the accrual include Medicaid, managed care, long-term-care, hospital, and various other government programs. We base our sales rebates and discount accruals primarily upon our historical rebate/discount payments made to our customer segment groups. We calculate these rebates/discounts based upon a percent of our sales for each of our products as defined by the statutory rates and the contracts with our various customer groups.

The largest of our sales rebate/discount amounts are rebates associated with the Medicaid rebate program. Although we generally accrue a liability for Medicaid rebates at the time the product is shipped, there is typically up to a six-month difference between the time in which we record sales of our products and the payment of the Medicaid rebate amounts to the state government. In determining the appropriate Medicaid rebate accrual amount, our assumptions consider our historical Medicaid rebate payments by product as a percent of our historical sales as well as any significant changes in sales trends, evaluation of the current Medicaid rebate laws and interpretations, the percent of our products that are sold to Medicaid recipients, and our product pricing and current rebate/discount contracts.

We believe that the accruals we have established for sales rebates and discounts are reasonable and appropriate based on current facts and circumstances. However, it is possible that other people applying reasonable judgment to the same facts and circumstances could develop a different accrual amount for sales rebates and discounts. A 5 percent change in the Medicaid rebate expense we recognized in 2002 would lead to an approximate $22 million effect on our income before income taxes.

PRODUCT LITIGATION LIABILITIES AND OTHER CONTINGENCIES

Product litigation liabilities and other contingencies are by their nature uncertain and are based upon complex judgments and probabilities. The factors we consider in developing our product litigation liability reserves and other contingent liability amounts include the merits and jurisdiction of the litigation, the nature and the number of other similar current and past litigation cases, the nature of the product and the current assessment of the science subject to the litigation, and the likelihood of settlement and current state of settlement discussions if any. In addition, we have accrued for certain product liability claims incurred, but not filed, to the extent we can formulate a reasonable estimate of their costs. We estimate these expenses based primarily on historical claims experience and data regarding product usage.

We also consider the insurance coverage we have to diminish the exposure. In assessing our insurance coverage, we consider the policy coverage limits and exclusions, the potential for denial of coverage by the insurance company, the financial position of the insurers, the possibility of and the length of time for collection, and the solvency of the insurers.

We believe that the accruals and related insurance recoveries we have established for product litigation liabilities and other contingencies are appropriate based on current facts and circumstances. However, it is possible that other people applying reasonable judgment to the same facts and circumstances could develop a different liability amount for product litigation liabilities and other contingencies or a different recovery amount from the insurance companies. A 5 percent change in the product litigation liabilities and other contingencies accrual would lead to an approximate $13 million effect on our income before income taxes; however, most of this effect would be expected to be offset by recoveries from our insurance coverages. A 5 percent change in the insurance recoveries estimate would lead to an approximate $6 million effect on our income before income taxes.

PENSION AND RETIREE MEDICAL PLAN ASSUMPTIONS

Pension benefit costs include assumptions for the discount rate, retirement age, and the expected return on plan assets. Retiree medical plan costs include assumptions for the discount rate, retirement age, the expected return on plan assets, and the health-care-cost trend rates. These assumptions have a significant effect on the amounts reported.

Periodically, we evaluate the discount rate and the expected return on plan assets in our defined benefit pension and retiree health benefit plans. For 2003, we decreased the assumed weighted-average discount rate from 7.2 percent to 6.8 percent for the pension plans and 6.9 percent for the retiree medical plans and reduced the assumed weighted-average expected return on plan assets from 10.5 percent to 9.26 percent for the pension plans and 9.25 percent for the retiree health plans. These changes in our discount rate and expected rate of return on plan assets will decrease income before taxes in 2003 by approximately $30 million and $50 million, respectively. Additionally, we increased our assumed health-care-cost trend rate from 6 percent to 10 percent for 2003. The impact of this change will decrease income before taxes in 2003 by approximately $10 million.

In making these changes in assumptions, we considered many factors, including an evaluation of the discount rates, expected return on plan assets (approximately 90 percent of which are equity instruments), the health-care-cost trend rates of other companies, our historical assumptions compared with actual results, an analysis of current market conditions, asset allocations, and the views of leading financial advisers and economists. In evaluating our expected retirement age assumption, we considered the retirement ages of our past employees eligible for pension and medical benefits together with our expectations of future retirement ages.

We believe our pension and retiree medical plan assumptions are appropriate based upon the above factors. However, it is possible that other people applying reasonable judgment to the same facts and circumstances could develop a different estimate of these factors. If the health-care-cost trend rates were to be increased by one percentage point each future year, the aggregate of the service cost and interest cost components of the 2002 annual expense would increase by approximately $16 million. A one-percentage-point decrease would decrease the aggregate of the 2002 service cost and interest cost by approximately $14 million. If the discount rate were to be changed by a quarter percentage point, income before income taxes would change by approximately $10 million. If the expected return on plan assets were to be changed by a quarter percentage point, income before income taxes would change by approximately $10 million. If our assumption regarding the expected age of future retirees were adjusted by one year, that would affect our income before income taxes by approximately $17 million.

VALUATION ALLOWANCES RECORDED AGAINST DEFERRED TAX ASSETS

We have recorded valuation allowances against certain of our deferred tax assets, primarily those that have been generated from net operating losses in certain taxing jurisdictions. In evaluating whether we would more likely than not recover these deferred tax assets, we have not assumed any future taxable income or tax planning strategies in the jurisdictions associated with these carryforwards. Implementation of tax planning strategies to recover these deferred tax assets or future income generation in these jurisdictions could lead to the reversal of these valuation allowances and additional income recognition.

We believe that our estimates for the valuation allowances reserved against the deferred tax assets are appropriate based on current facts and circumstances. However, it is possible that other people applying reasonable judgment to the same facts and circumstances could develop a different estimate of these factors. A 5 percent change in the valuation allowance would result in a change in net income of approximately $19 million.

OTHER MATTERS

As a result of preapproval plant inspections for Zyprexa IntraMuscular and Forteo in early 2001, the U.S. Food and Drug Administration (FDA) informed us of a number of observations and issued a warning letter regarding adherence to cGMP regulations. In response, we have been implementing comprehensive, companywide improvements in our manufacturing operations. In November 2001, following a reinspection of the manufacturing facilities for Zyprexa IntraMuscular and Forteo, the FDA noted additional observations, primarily relating to computer system validation, manufacturing process reviews, and data handling. In the spring of 2002, as part of cGMP inspection requirements and pre-approval inspections related to our product pipeline, the FDA conducted a comprehensive review of eight of our global manufacturing sites and issued reports summarizing the investigators' findings. Fifty observations were noted in the combined inspection reports for the Indianapolis facilities. The findings primarily related to overly complex quality processes, insufficient technical expertise and oversight, and our need to improve our ability to identify the root cause of manufacturing deviations. The number of observations for the inspections outside Indianapolis ranged from zero to a maximum of 16 at one site. Two subsequent inspections, in Puerto Rico and Indianapolis, resulted in no observations at either site. In the fall of 2002, we provided the FDA with a comprehensive plan to upgrade our manufacturing and quality operations, particularly at our Indianapolis facilities, and have been engaged since then in discussions with the agency on our plan and its ongoing implementation. The FDA has not yet issued its final conclusions and recommendations. We are preparing for inspections in two of our Indianapolis facilities.

Although the FDA has not yet cleared all our manufacturing operations, the agency did approve Strattera and Forteo in November 2002. Approval of Zyprexa IntraMuscular and Cymbalta will depend on resolution of manufacturing issues in relevant Indianapolis facilities to the FDA's satisfaction. The approval of Cialis is not expected to be affected since the manufacturing of this product is planned for outside Indianapolis. The timeline for resolution of these issues is difficult to predict. A manufacturer subject to a warning letter that fails to correct cGMP deficiencies to the agency's satisfaction could be subject to interruption of production, recalls, seizures, fines, and other penalties.

In the U.S., pharmaceutical products are subject to increasing pricing pressures, which could be significantly affected by the current national debate over Medicare and Medicaid reform, as well as by actions by individual states to reduce pharmaceutical costs for Medicaid and other programs. Many proposals now being considered at the federal and state levels and, in some cases, implemented at the state level, may result in government agencies demanding discounts from pharmaceutical companies that may expressly or implicitly create price controls on prescription drugs. In addition, federal legislation and regulatory changes have been proposed that have the potential to limit the ability of pharmaceutical companies to enforce patent rights. Also, some U.S. lawmakers are considering proposals to legalize the wholesale importation of prescription drugs from Canada, a price-controlled jurisdiction. International operations are also generally subject to extensive and, in many cases, intensifying price and market regulations. As a result, we expect that pressures on pharmaceutical pricing will continue.

In April 2002, Lilly ICOS LLC, our joint venture with ICOS Corporation, received an approvable letter from the FDA for Cialis. FDA approval is contingent upon successful completion of additional clinical pharmacology studies, labeling discussions, and routine manufacturing inspections. We currently plan for FDA approval in the second half of 2003. See Legal and Environmental Matters for a discussion of U.S. patent litigation involving Cialis. Cialis was launched in the European Union in early 2003.

In September 2002, we received an approvable letter from the FDA for Cymbalta, a dual reuptake inhibitor for the treatment of depression. Approval is contingent upon labeling discussions and resolution of the outstanding manufacturing issues as discussed previously.

On November 26, 2002, the FDA approved Forteo for the treatment of osteoporosis in postmenopausal women who are at high risk for a fracture. Forteo was also approved to increase bone mass in men with primary osteoporosis who are at high risk for a fracture. Forteo was officially launched in December 2002. In December 2002, the European Committee for Proprietary Medicinal Products (CPMP) issued a positive opinion for the product under the proposed European brand name Forteo®. Following the CPMP's

positive opinion, the application will be reviewed by the European Commission (EC), which has authority to grant marketing authorization for the European Union. Lilly anticipates a decision from the EC in early 2003.

On November 26, 2002, the FDA approved Strattera, judging it safe and effective for the treatment of attention-deficit hyperactivity disorder (ADHD) in children, adolescents, and adults. Strattera is the first FDA-approved treatment for ADHD that is not a stimulant under the Controlled Substances Act. Strattera was officially launched in January 2003.

In the fourth quarter of 2002, we submitted olanzapine/fluoxetine combination (OFC) to the FDA for the treatment of bipolar depression and duloxetine for the treatment of stress urinary incontinence. We also began a rolling submission in the fourth quarter of 2002 for Alimta, the first potential approved treatment for malignant pleural mesothelioma, a rare lung cancer usually associated with exposure to asbestos. The rolling submission is expected to be completed in the fall of 2003.

In March 2002, we sold the U.S. marketing rights of the Darvon® and Darvocet-N® family of pain products to and entered into a supply agreement with NeoSan Pharmaceuticals (NeoSan), the commercialization business unit of aaiPharma, Inc. The purchase price of $211.4 million is being amortized to revenue over the expected three-year period in which we will manufacture the products for NeoSan.

In July 2002, we entered into an agreement with Quintiles whereby Quintiles will support us in commercializing Cymbalta in the U.S. Quintiles will provide, at its expense, more than 500 sales representatives to supplement our sales force promoting Cymbalta for five years following product launch. Quintiles is responsible for milestone payments and marketing reimbursements due us in stages, most of which were contingent upon our receipt of an approvable letter from the FDA (received in September 2002) and upon the launch of the product. We will pay Quintiles 8.25 percent of U.S. Cymbalta sales for depression and other neuroscience-related indications over the five-year promotion period and a 3 percent royalty over the following three years.

In November 2002, we entered into a long-term agreement with Boehringer Ingelheim GmbH (BI) to jointly develop and commercialize duloxetine for the treatment of stress urinary incontinence (SUI) on a worldwide basis (excluding Japan) and Cymbalta for the treatment of depression in countries outside the U.S. (excluding Japan). Under the terms of the agreement, in addition to the upfront payment, BI will make potential milestone payments we expect to receive during the next several years based upon successful attainment of certain regulatory approvals for depression, SUI, and other potential urinary incontinence indications and other performance criteria. None of these milestone amounts is expected to be material to any one reporting period. We will share approximately equally in the ongoing development and marketing costs with BI during the term of the agreement, and we will pay BI a commission rate, competitive with other major pharmaceutical product collaborations, on net sales in the respective territories.

In December 2002, we sold the marketing rights of Sarafem to Galen Holdings PLC (Galen) and entered into a supply agreement with Galen for the product. We will amortize the purchase price of $295 million to revenue over the three-year period in which we will manufacture Sarafem for Galen. The amortization will begin in 2003 as regulatory approval for the sale was not received until January 2003.

FINANCIAL EXPECTATIONS FOR 2003

For the first quarter and full year of 2003, excluding unusual items, we expect earnings per share to be in the range of $.57 to $.59 and $2.50 to $2.60, respectively. Our financial expectations for 2003 include continued, solid growth in Zyprexa sales. However, with increasing competitive pressure in the schizophrenia segment, we expect Zyprexa market share to dip slightly in the near term. We also expect 2003 gross margins to include an incremental, ongoing annual cost of approximately $200 million compared with 2002 levels as part of our strategy to ensure improvements and growth in capacity in our manufacturing operations. These costs are expected to be partially offset by a favorable sales mix of higher margin products.

Reported results for 2003 may include significant unusual charges related to restructuring and asset impairments. As noted above, our financial expectations exclude any unusual items, such as the potential charges that are described below.

In December 2002, we initiated a plan for eliminating approximately 700 positions worldwide in order to streamline our infrastructure. The employees affected by the elimination of these positions will be given the opportunity to fill open positions and new positions being created within the company in areas such as sales, manufacturing, and quality. Each affected employee has until the end of April to locate another position for which he or she is qualified. However, the affected employee also has an option to elect a voluntary severance package. Because we do not yet know how many employees will choose the voluntary severance package, we cannot currently estimate the expense associated with this plan. The expenses associated with this plan will be recorded during the first quarter of 2003 and potentially in the second quarter as the costs are incurred.

As part of our ongoing strategic review of our worldwide manufacturing activities, it is likely that decisions will be made during the first quarter of 2003 that will result in the impairment of certain manufacturing assets, primarily in the U.S. We do not anticipate that this

review will result in any closure of facilities, but certain assets located at various manufacturing sites could be affected. Depending on decisions made, costs may be recognized in the first quarter of 2003.

Actual results could differ materially and will depend on, among other things, the continuing growth of our currently marketed products; developments with competitive products; the timing and scope of regulatory approvals, including the necessary FDA approvals of manufacturing operations in connection with pending NDAs; possible regulatory actions regarding cGMP compliance, including fines or penalties; the timing and success of new-product launches; foreign exchange rates; and the impact of state, federal, and foreign government pricing and reimbursement measures. We undertake no duty to update these forward-looking statements.

LEGAL AND ENVIRONMENTAL MATTERS

In February 2001, we were notified that Zenith Goldline Pharmaceuticals, Inc. (Zenith), had submitted an abbreviated new drug application (ANDA) seeking permission to market a generic version of Zyprexa in various dosage forms several years prior to the expiration of our U.S. patents for the product. Zenith alleges that our patents are invalid or not infringed. On April 2, 2001, we filed suit against Zenith in federal district court in Indianapolis seeking a ruling that Zenith's challenge to the U.S. compound patent (expiring in 2011) is without merit. In May 2001, we were notified that Dr. Reddy's Laboratories, Ltd. (Reddy), had also filed an ANDA covering two dosage forms, alleging that the patents are invalid or not infringed. On June 26, 2001, we filed a similar patent infringement suit against Reddy in federal district court in Indianapolis. Thereafter, we were notified that Reddy had filed an ANDA for additional dosage forms, and in February 2002, we filed an infringement suit in the same court based on Reddy's additional ANDA. We received notice in August 2002 of a similar ANDA filing by Teva Pharmaceuticals, and in September 2002, we filed suit against Teva in the same court. The cases have been consolidated and are in the discovery stage. We currently expect a trial date to be scheduled for the fourth quarter of 2003. We believe that the generic manufacturers' patent claims are without merit and we expect to prevail in this litigation. However, it is not possible to predict or determine the outcome of this litigation and, accordingly, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

In October 2002, we were notified that Barr Laboratories, Inc. (Barr), had submitted an ANDA with the U.S. FDA seeking permission to market a generic version of Evista several years prior to the expiration of our U.S. patents covering the product, alleging that the patents are invalid or not infringed. On November 26, 2002, we filed suit against Barr in federal district court in Indianapolis seeking a ruling that Barr's challenge to our patents claiming the method of use and pharmaceutical form (expiring from 2012 to 2017) are without merit. While we believe that Barr's claims are without merit and expect to prevail, it is not possible to predict or determine the outcome of the litigation. Therefore, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

In October 2002, Pfizer Inc. (Pfizer), filed a lawsuit in the United States District Court in Delaware against us, Lilly ICOS LLC, and ICOS Corporation alleging that the proposed marketing of Cialis for erectile dysfunction would infringe its newly issued method-of-use patent. Previously, Pfizer's European method-of-use patent was held invalid in the European Patent Office and the U.K. counterpart to this patent was held invalid by the U.K. Court of Appeal. The case is in the preliminary stages. We intend to vigorously defend this lawsuit and expect to prevail. However, it is not possible to predict or determine the outcome of this litigation and, therefore, we can provide no assurance that we will prevail.

We are a defendant in numerous product liability suits involving primarily diethylstilbestrol (DES) and thimerosal. See Note 13 to the consolidated financial statements for further information on those matters.

Our worldwide operations are subject to complex and changing environmental and health and safety laws and regulations, which will continue to require capital investment and operational expenses. We have also been designated a potentially responsible party with respect to fewer than 10 sites under the federal environmental law commonly known as Superfund. For more information on those matters, see Note 13 to the consolidated financial statements.

While it is not possible to predict or determine the outcome of the patent, product liability, or other legal actions brought against us or the ultimate cost of environmental matters, we believe that, except as noted above with respect to the Zyprexa and Evista patent litigation, the costs associated with all such matters will not have a material adverse effect on our consolidated financial position or liquidity but could possibly be material to the consolidated results of operations in any one accounting period.

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 —
A CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we caution investors that any forward-looking statements or projections made by us, including those made in this document, are based on management's expectations at the time they are made, but they are subject to risks and uncertainties that may cause actual results to differ materially from those projected. Economic, competitive, governmental, technological, and other factors that may affect our operations and prospects are discussed above and in Exhibit 99 to our most recent report on Forms 10-Q and 10-K filed with the Securities and Exchange Commission.

Consolidated Statements of Income
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions, except per-share data)

Year Ended December 31	2002	2001	2000
Net sales	**$11,077.5**	$11,542.5	$10,862.2
Cost of sales	**2,176.5**	2,160.2	2,055.7
Research and development	**2,149.3**	2,235.1	2,018.5
Marketing and administrative	**3,424.0**	3,417.4	3,228.3
Acquired in-process research and development (Note 3)	**84.0**	190.5	—
Asset impairment and other site charges (Note 4)	**—**	121.4	—
Interest expense	**79.7**	146.5	182.3
Other income-net (Note 3)	**(293.7)**	(280.7)	(481.3)
	7,619.8	7,990.4	7,003.5
Income before income taxes and extraordinary item	**3,457.7**	3,552.1	3,858.7
Income taxes (Note 11)	**749.8**	742.7	800.9
Income before extraordinary item	**2,707.9**	2,809.4	3,057.8
Extraordinary item, net of tax (Note 6)	**—**	(29.4)	—
Net income	**$ 2,707.9**	$ 2,780.0	$ 3,057.8
Earnings per share — basic (Note 10)			
Income before extraordinary item	**$ 2.51**	$ 2.61	$ 2.83
Extraordinary item	**—**	(.03)	—
Net income	**$ 2.51**	$ 2.58	$ 2.83
Earnings per share — diluted (Note 10)			
Income before extraordinary item	**$ 2.50**	$ 2.58	$ 2.79
Extraordinary item	**—**	(.03)	—
Net income	**$ 2.50**	$ 2.55	$ 2.79

See notes to consolidated financial statements.

Consolidated Balance Sheets
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions)

December 31	2002	2001
Assets		
Current Assets		
Cash and cash equivalents	**$ 1,945.9**	$ 2,702.3
Short-term investments	**1,708.8**	1,028.7
Accounts receivable, net of allowances of $66.4 (2002) and $88.5 (2001)	**1,670.3**	1,406.2
Other receivables	**403.9**	289.0
Inventories	**1,495.4**	1,060.2
Deferred income taxes (Note 11)	**331.7**	223.3
Prepaid expenses	**248.1**	229.2
Total current assets	**7,804.1**	6,938.9
Other Assets		
Prepaid pension (Note 12)	**1,515.4**	1,102.8
Investments (Note 5)	**3,150.4**	2,710.9
Sundry (Note 8)	**1,279.1**	1,149.1
	5,944.9	4,962.8
Property and Equipment	**5,293.0**	4,532.4
	$19,042.0	$16,434.1

Consolidated Balance Sheets
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions) — Con't.

December 31	2002	2001
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term borrowings (Note 6)	**$ 545.4**	$ 286.3
Accounts payable	**676.9**	624.1
Employee compensation	**231.7**	381.9
Dividends payable	**375.8**	341.0
Income taxes payable (Note 11)	**1,761.9**	2,319.5
Other liabilities (Note 8)	**1,471.8**	1,250.2
Total current liabilities	**5,063.5**	5,203.0
Other Liabilities		
Long-term debt (Note 6)	**4,358.2**	3,132.1
Other noncurrent liabilities (Note 8)	**1,346.7**	995.0
	5,704.9	4,127.1
Commitments and contingencies (Note 13)	**—**	—
Shareholders' Equity (Notes 7 and 9)		
Common stock — no par value		
Authorized shares: 3,200,000,000		
Issued shares: 1,123,451,408 (2002) and 1,124,333,530 (2001)	**702.1**	702.7
Additional paid-in capital	**2,610.0**	2,610.0
Retained earnings	**8,500.1**	7,411.2
Employee benefit trust	**(2,635.0)**	(2,635.0)
Deferred costs — ESOP	**(123.3)**	(129.1)
Accumulated other comprehensive loss (Note 14)	**(670.8)**	(748.4)
	8,383.1	7,211.4
Less cost of common stock in treasury		
2002 — 1,008,292 shares		
2001 — 984,781 shares	**109.5**	107.4
	8,273.6	7,104.0
	$19,042.0	$16,434.1

See notes to consolidated financial statements

Consolidated Statements of Cash Flows
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions)

Year Ended December 31	2002	2001	2000
Cash Flows From Operating Activities			
Net income	**$ 2,707.9**	$ 2,780.0	$ 3,057.8
Adjustments To Reconcile Net Income to Cash Flows From Operating Activities			
Depreciation and amortization	**493.0**	454.9	435.8
Change in deferred taxes	**346.5**	273.8	(442.7)
Gain on sale of Kinetra, net of tax	**—**	—	(214.4)
Acquired in-process research and development, net of tax	**54.6**	123.8	—
Asset impairment and other site charges, net of tax	**—**	78.9	—
Other, net	**10.8**	27.6	117.3
	3,612.8	3,739.0	2,953.8
Changes in operating assets and liabilities			
Receivables — (increase) decrease	**(321.1)**	167.5	(165.4)
Inventories — (increase) decrease	**(285.1)**	(184.2)	9.8
Other assets — increase	**(667.4)**	(81.1)	(210.5)
Accounts payable and other liabilities — increase (decrease)	**(268.5)**	20.4	1,143.8
	(1,542.1)	(77.4)	777.7
Net Cash Provided by Operating Activities	**2,070.7**	3,661.6	3,731.5
Cash Flows From Investing Activities			
Purchase of property and equipment	**(1,130.9)**	(884.0)	(677.9)
Disposals of property and equipment	**36.8**	31.6	5.1
Net change in short-term investments	**(651.8)**	(520.3)	(337.7)
Proceeds from sales and maturities of noncurrent investments	**4,777.9**	3,708.7	803.1
Purchase of noncurrent investments	**(5,190.3)**	(5,931.1)	(714.7)
Purchase of in-process research and development	**(84.0)**	(159.6)	—
Other, net	**(232.1)**	(210.1)	(134.4)
Net Cash Used in Investing Activities	**(2,474.4)**	(3,964.8)	(1,056.5)
Cash Flows From Financing Activities			
Dividends paid	**(1,335.8)**	(1,207.2)	(1,126.0)
Purchase of common stock and other capital transactions	**(385.2)**	(545.7)	(1,052.8)
Issuances under stock plans	**64.6**	109.5	178.4
Net change in short-term borrowings	**(18.0)**	102.0	(203.0)
Proceeds from issuance of long-term debt	**1,259.6**	901.3	1.1
Repayments of long-term debt	**(7.2)**	(408.6)	(27.2)
Net Cash Used for Financing Activities	**(422.0)**	(1,048.7)	(2,229.5)
Effect of exchange rate changes on cash	**69.3**	(60.7)	(31.0)
Net increase (decrease) in cash and cash equivalents	**(756.4)**	(1,412.6)	414.5
Cash and cash equivalents at beginning of year	**2,702.3**	4,114.9	3,700.4
Cash and cash equivalents at end of year	**$ 1,945.9**	$ 2,702.3	$ 4,114.9

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions)

Year Ended December 31	2002	2001	2000
Net income	**$2,707.9**	$2,780.0	$3,057.8
Other comprehensive income (loss)			
Foreign currency translation adjustments	**273.6**	(83.8)	(170.7)
Net unrealized gains (losses) on securities	**(67.4)**	47.7	(20.5)
Minimum pension liability adjustment	**(4.6)**	(95.6)	(33.6)
Effective portion of cash flow hedges	**(217.9)**	(42.0)	—
Other comprehensive loss before income taxes	**(16.3)**	(173.7)	(224.8)
Provision for income taxes related to other comprehensive loss items	**93.9**	36.5	20.0
Other comprehensive gain (loss) (Note 14)	**77.6**	(137.2)	(204.8)
Comprehensive income	**$2,785.5**	$2,642.8	$2,853.0

See notes to consolidated financial statements.

Segment Information
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions)

We operate in one significant business segment — pharmaceutical products. Operations of the animal health business segment are not material and share many of the same economic and operating characteristics as pharmaceutical products. Therefore, they are included with pharmaceutical products for purposes of segment reporting.

Year Ended December 31	2002	2001	2000
Net sales — to unaffiliated customers			
Neurosciences	**$ 4,668.3**	$ 5,328.2	$ 5,157.6
Endocrinology	**3,444.6**	3,103.5	2,583.5
Oncology	**893.1**	739.1	580.5
Animal health	**693.1**	686.1	668.5
Cardiovascular	**624.9**	593.4	587.9
Anti-infectives	**577.4**	749.5	894.3
Other pharmaceutical	**176.1**	342.7	389.9
Net sales	**$11,077.5**	$11,542.5	$10,862.2
Geographic Information			
Net sales — to unaffiliated customers[1]			
United States	**$ 6,536.1**	$ 7,364.3	$ 7,002.9
Western Europe	**2,155.4**	1,953.1	1,773.9
Other foreign countries	**2,386.0**	2,225.1	2,085.4
	$11,077.5	$11,542.5	$10,862.2
Long-lived assets			
United States	**$ 4,725.1**	$ 4,015.4	$ 3,621.0
Western Europe	**997.1**	767.9	735.3
Other foreign countries	**673.3**	519.6	472.1
	$ 6,395.5	$ 5,302.9	$ 4,828.4

[1]Net sales are attributed to the countries based on the location of the customer.

The largest category of products is the neurosciences group, which includes Zyprexa, Prozac, Permax®, and Strattera. Endocrinology products consist primarily of Humulin, Humalog, Actos, Evista, Forteo, and Humatrope®. Oncology products consist primarily of Gemzar. Animal health products include Tylan®, Rumensin®, Micotil®, Surmax®, Coban®, and other products for livestock and poultry. Cardiovascular products consist primarily of ReoPro, Xigris, and Dobutrex®. Anti-infectives include primarily Ceclor®, Vancocin®, and Keflex®. The other pharmaceutical product group includes primarily Axid® and other miscellaneous pharmaceutical products and services.

Most of the pharmaceutical products are distributed through wholesalers that serve pharmacies, physicians and other health care professionals, and hospitals. In 2002, our three largest wholesalers each accounted for between 16 percent and 17 percent of consolidated net sales. Further, they each accounted for between 12 percent and 14 percent of accounts receivable as of December 31, 2002. Animal health products are sold primarily to wholesale distributors.

Our business segments are distinguished by the ultimate end user of the product: humans or animals. Performance is evaluated based on profit or loss from operations before income taxes. The accounting policies of the individual segments are substantially the same as those described in the summary of significant accounting policies in Note 1 to the consolidated financial statements. Income before taxes for the animal health business was approximately $221 million, $204 million, and $180 million in 2002, 2001, and 2000, respectively.

The assets of the animal health business are intermixed with those of the pharmaceutical products business and are not separately determinable. Long-lived assets disclosed above consist of property and equipment and certain sundry assets.

We are exposed to the risk of changes in social, political, and economic conditions inherent in foreign operations, and our results of operations and the value of our foreign assets are affected by fluctuations in foreign currency exchange rates.

Selected Quarterly Data (unaudited)
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions, except per-share data)

2002	Fourth	Third	Second	First
Net sales	$2,955.6	$2,785.6	$2,775.2	$2,561.1
Cost of sales	567.8	553.7	524.9	530.1
Operating expenses	1,495.1	1,337.4	1,460.7	1,280.1
Acquired in-process research and development	—	84.0	—	—
Other income — net	(51.3)	(52.3)	(54.6)	(55.8)
Income before income taxes	944.0	862.8	844.2	806.7
Net income	736.3	683.9	658.5	629.2
Earnings per share — basic	.68	.64	.61	.58
Earnings per share — diluted	.68	.63	.61	.58
Dividends paid per share	.31	.31	.31	.31
Common stock closing prices				
High	69.00	61.84	78.34	80.28
Low	55.14	47.91	56.11	72.49

2001	Fourth	Third	Second	First
Net sales	$2,828.9	$2,874.4	$3,033.5	$2,805.7
Cost of sales	566.7	549.0	522.2	522.3
Operating expenses	1,472.6	1,431.9	1,463.6	1,284.4
Acquired in-process research and development	100.0	90.5	—	—
Asset impairment and other site charges	—	121.4	—	—
Other income — net	(51.7)	(33.7)	(13.4)	(35.4)
Income before income taxes and extraordinary item	741.3	715.3	1,061.1	1,034.4
Net income	575.4[1]	570.1[1]	827.7	806.8
Earnings per share — basic	.53	.53	.77	.75
Earnings per share — diluted	.53	.52	.76	.74
Dividends paid per share	.28	.28	.28	.28
Common stock closing prices				
High	83.60	83.37	87.47	90.23
Low	74.73	73.65	73.15	71.83

Our common stock is listed on the New York, London, Tokyo, and other stock exchanges.

[1] Extraordinary charges of $12.8 million and $16.6 million, net of a $6.8 million and $9.0 million income tax benefit, were recognized as a result of debt repurchased during the fourth quarter and third quarter of 2001, respectively.

Selected Financial Data (unaudited)
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions, except per-share data)

	2002	2001	2000	1999	1998
Operations					
Net sales	**$ 11,077.5**	$ 11,542.5	$ 10,862.2	$ 10,002.9	$ 9,236.8
Research and development	**2,149.3**	2,235.1	2,018.5	1,783.6	1,738.9
Other costs and expenses	**5,470.5**	5,755.3	4,985.0	4,973.9	4,832.9
Income from continuing operations before taxes and extraordinary item	**3,457.7**	3,552.1	3,858.7	3,245.4	2,665.0
Income taxes	**749.8**	742.7	800.9	698.7	568.7
Income from:					
Continuing operations before extraordinary item	**2,707.9**	2,809.4	3,057.8	2,546.7	2,096.3
Discontinued operations	**—**	—	—	174.3	8.8
Net income	**2,707.9**	2,780.0[2]	3,057.8	2,721.0	2,097.9[2]
Income from continuing operations before extraordinary item as a percent of sales	**24.4%**	24.3%	28.2%	25.5%	22.7%
Per-share data — diluted:					
Income from:					
Continuing operations before extraordinary item	**$ 2.50**	$ 2.58	$ 2.79	$ 2.30	$ 1.87
Discontinued operations	**—**	—	—	.16	.01
Net income	**2.50**	2.55[2]	2.79	2.46	1.87[2]
Dividends declared per share	**1.27**	1.15	1.06	.95	.83
Weighted-average number of shares outstanding — diluted (thousands)	**1,085,088**	1,090,793	1,097,725	1,106,055	1,121,486
Financial Position					
Current assets	**$ 7,804.1**	$ 6,938.9	$ 7,943.0	$ 7,055.5	$ 5,406.8
Current liabilities	**5,063.5**	5,203.0	4,960.7	3,935.4	4,607.2
Property and equipment — net	**5,293.0**	4,532.4	4,176.6	3,981.5	4,096.3
Total assets	**19,042.0**	16,434.1	14,690.8	12,825.2	12,595.5
Long-term debt	**4,358.2**	3,132.1	2,633.7	2,811.9	2,185.5
Shareholders' equity	**8,273.6**	7,104.0	6,046.9	5,013.0	4,429.6
Supplementary Data[1]					
Return on shareholders' equity	**35.2%**	42.7%	55.3%	53.9%	46.2%
Return on assets	**15.2%**	18.0%	22.9%	21.3%	17.0%
Capital expenditures	**$ 1,130.9**	$ 884.0	$ 677.9	$ 528.3	$ 419.9
Depreciation and amortization	**493.0**	454.9	435.8	439.7	490.4
Effective tax rate	**21.7%**	20.9%	20.8%	21.5%	21.3%
Number of employees	**43,700**	41,100	35,700	31,300	29,800
Number of shareholders of record	**56,200**	57,700	59,200	62,300	62,300

[1] All supplementary financial data have been computed using income from continuing operations except for capital expenditures and depreciation and amortization, which include amounts from discontinued operations. The number of employees reflects continuing operations, including controlled joint ventures.

[2] Reflects the impact of an extraordinary item in 2001 (see Note 6) and 1998.

(Dollars in millions, except per-share data)

Note 1: Summary of Significant Accounting Policies

Basis of presentation: The accounts of all wholly owned and majority-owned subsidiaries are included in the consolidated financial statements. Where our ownership of consolidated subsidiaries is less than 100 percent, the outside shareholders' interests are reflected in other noncurrent liabilities. All intercompany balances and transactions have been eliminated.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

All per-share amounts, unless otherwise noted in the footnotes, are presented on a diluted basis, that is, based on the weighted-average number of outstanding common shares and the effect of all potentially dilutive common shares (primarily unexercised stock options).

Cash equivalents: We consider all highly liquid investments, generally with a maturity of three months or less, to be cash equivalents. The cost of these investments approximates fair value. If items meeting this definition are part of a larger investment pool, they are classified consistent with the classification of the pool.

Inventories: We state all inventories at the lower of cost or market. We use the last-in, first-out (LIFO) method for substantially all our inventories located in the continental United States, or approximately 45 percent of our total inventories. Other inventories are valued by the first-in, first-out (FIFO) method. Inventories at December 31 consisted of the following:

	2002	2001
Finished products	**$ 482.9**	$ 315.1
Work in process	**816.3**	489.6
Raw materials and supplies	**242.7**	264.9
	1,541.9	1,069.6
Reduction to LIFO cost	**(46.5)**	(9.4)
	$1,495.4	$1,060.2

Investments: Substantially all debt and marketable equity securities are classified as available-for-sale. Available-for-sale securities are carried at fair value with the unrealized gains and losses, net of tax, reported in other comprehensive income. Unrealized losses considered to be other than temporary are recognized in earnings currently. Factors we consider in making this evaluation include company-specific drivers of the decrease in stock price, status of projects in development, near-term prospects of the issuer, the length of time the value has been depressed, and the financial condition of the industry. Realized gains and losses on sales of available-for-sale securities are computed based upon initial cost adjusted for any other-than-temporary declines in fair value. Investments in companies over which we have significant influence but not a controlling interest are accounted for using the equity method with our share of earnings or losses reported in other income. We own no investments that are considered to be trading securities.

Derivative financial instruments: Our derivative activities are initiated within the guidelines of documented corporate risk-management policies and do not create additional risk because gains and losses on derivative contracts offset losses and gains on the assets, liabilities, and transactions being hedged. As derivative contracts are initiated, we designate the instruments individually as either a fair value hedge or a cash flow hedge. Management reviews the correlation and effectiveness of our derivatives on a quarterly basis.

For derivative contracts that are designated and qualify as fair value hedges, the derivative instrument is marked to market with gains and losses recognized currently in income to offset the respective losses and gains recognized on the underlying exposure. For derivative contracts that are designated and qualify as cash flow hedges, the effective portion of gains and losses on these contracts is reported as a component of other comprehensive income and reclassified into earnings in the same period the hedged transaction affects earnings. Hedge ineffectiveness is immediately recognized in earnings. Derivative contracts that are not designated as hedging instruments are recorded at fair value with the gain or loss recognized in current earnings during the period of change.

We enter into foreign currency forward and option contracts to reduce the effect of fluctuating currency exchange rates (principally the Japanese yen and the euro). Generally, foreign currency derivatives used for hedging are put in place using the same or like currencies and duration as the underlying exposures. Forward contracts are principally used to manage exposures arising from subsidiary trade and loan payables and receivables denominated in foreign currency. These contracts are recorded at fair value with the gain or loss recognized in current earnings. The purchased option contracts are used to hedge anticipated foreign currency transactions, primarily intercompany inventory activities expected to occur within the next year. These contracts are designated as cash flow hedges of those future transactions and the impact on earnings is included in cost of sales. We may enter into foreign currency forward contracts and currency swaps as fair value hedges of firm commitments. Forward and option contracts generally have maturities not exceeding 12 months.

In the normal course of business, our operations are exposed to fluctuations in interest rates. These fluctuations can vary the costs of financing, investing, and operating. We address a portion of these risks through a controlled program of risk management that includes the use of derivative financial instruments. The objective of controlling these risks is to limit the impact of fluctuations in interest rates on earnings. Our primary interest rate risk exposure results from changes in short-term U.S. dollar interest rates. In an effort to manage interest rate exposures, we strive to achieve an acceptable balance between fixed and floating rate debt and investment positions and may enter into interest rate swaps or collars to help maintain that balance. Interest rate swaps or collars that convert our fixed rate debt or investments to a floating rate are designated as fair value hedges of the underlying instruments. Interest rate swaps or collars that convert floating rate debt or investments to a fixed rate are designated as cash flow hedges. Interest expense on the debt is adjusted to include the payments made or received under the swap agreements.

Goodwill and other intangibles: Other intangibles with finite lives arising from acquisitions and research alliances are amortized over their estimated useful lives, ranging from 5-10 years, using the straight-line method. Beginning with our adoption of Statement of Financial Accounting Standards (SFAS) 142 (Note 2) on January 1, 2002, goodwill is no longer amortized. Goodwill and other intangibles are reviewed to assess recoverability at least annually and when certain impairment indicators are present. Unamortized goodwill and other intangibles with finite lives were $94.7 million and $93.1 million, respectively, at December 31, 2002 and 2001, and were included in sundry assets in the consolidated balance sheets. We currently have no intangible assets with indefinite lives. No material impairments have occurred with respect to the carrying value of our goodwill or other intangible assets in 2002, 2001, or 2000. Amortization of goodwill in 2001 and 2000 was negligible for both periods.

Property and equipment: Property and equipment is stated on the basis of cost. Provisions for depreciation of buildings and equipment are computed generally by the straight-line method at rates based on their estimated useful lives (generally 12 to 50 years for buildings and 3 to 18 years for equipment).

At December 31, property and equipment consisted of the following:

	2002	2001
Land	**$ 111.0**	$ 99.8
Buildings	**2,871.7**	2,593.1
Equipment	**5,148.4**	4,776.8
Construction in progress	**1,415.0**	945.7
	9,546.1	8,415.4
Less allowances for depreciation	**4,253.1**	3,883.0
	$5,293.0	$4,532.4

Depreciation expense for 2002, 2001, and 2000 was $437.8 million, $414.9 million, and $393.5 million, respectively. Approximately $60.3 million, $61.5 million, and $43.1 million of interest costs were capitalized as part of property and equipment in 2002, 2001, and 2000, respectively. Total rental expense for all leases, including contingent rentals (not material), amounted to approximately $240.8 million, $207.1 million, and $172.3 million for 2002, 2001, and 2000, respectively. Capital leases included in property and equipment in the consolidated balance sheets, capital lease obligations entered into, and future minimum rental commitments are not material.

Revenue recognition: We recognize revenue from sales of products at the time title of goods passes to the buyer and the buyer assumes the risks and rewards of ownership. This is generally at the time products are shipped to the customer. Provisions for discounts and rebates to customers are established in the same period the related sales are recorded and are included in other current liabilities. Revenue from copromotion services (primarily Actos) is based upon net sales reported by our copromotion partner and, if applicable, the number of sales calls we perform. We immediately recognize the full amount of milestone payments due us upon the achievement of the milestone event if the event is substantive, objectively determinable, and represents an important point in the development life cycle of the pharmaceutical product. Milestone payments earned by us are generally recorded in other income-net. Initial fees we receive from the partnering of our compounds under development are amortized through the expected product approval date. Initial fees received from out-licensing agreements that include both the sale of marketing rights to our

commercialized products and a related commitment to supply the products are generally recognized as net sales over the term of the supply agreement.

Research and development: We recognize as incurred the cost of directly acquiring assets to be used in the research and development process that have not yet received regulatory approval for marketing and for which no alternative future use has been identified. We generally recognize licensing milestone expense when the event requiring payment of the milestone occurs.

Income taxes: Deferred taxes are recognized for the future tax effects of temporary differences between financial and income tax reporting based on enacted tax laws and rates. Federal income taxes are provided on the portion of the income of foreign subsidiaries that is expected to be remitted to the United States and be taxable.

Earnings per share: We calculate basic earnings per share based on the weighted-average number of outstanding common shares and incremental shares. We calculate diluted earnings per share based on the weighted-average number of outstanding common shares plus the effect of dilutive stock options and other incremental shares.

Stock-based compensation: As discussed further in Note 7, we have elected to follow Accounting Principles Board (APB) Opinion 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for our stock options and performance awards. Under APB 25, because the exercise price of our employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. However, SFAS 123, Accounting for Stock-Based Compensation, as amended by SFAS 148, Accounting for Stock-Based Compensation-Transition and Disclosure, requires us to present pro forma information as if we had accounted for our employee stock options and performance awards under the fair value method of that statement. For purposes of pro forma disclosure, the estimated fair value of the options and performance awards at the date of the grant is amortized to expense over the vesting period. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation.

	2002	2001	2000
Net income, as reported	**$2,707.9**	$2,780.0	$3,057.8
Add: Compensation expense for stock-based performance awards included in reported net income, net of related tax effects	**—**	5.5	51.0
Deduct: Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects	**(322.1)**	(215.9)	(139.5)
Pro forma net income	**$2,385.8**	$2,569.6	$2,969.3
Earnings per share:			
Basic, as reported	**$ 2.51**	$ 2.58	$ 2.83
Basic, pro forma	**$ 2.22**	$ 2.38	$ 2.75
Diluted, as reported	**$ 2.50**	$ 2.55	$ 2.79
Diluted, pro forma	**$ 2.20**	$ 2.36	$ 2.70

Note 2: Implementation of New Financial Accounting Pronouncements

In 2001, the Financial Accounting Standards Board (FASB) issued SFAS 142, Goodwill and Other Intangible Assets. SFAS 142 applies to all acquired intangible assets. It requires that goodwill and other identifiable intangible assets with an indefinite useful life not be amortized but instead be tested for impairment at least annually. Identifiable intangible assets are amortized when their useful life is determined to no longer be indefinite. The adoption of this statement on January 1, 2002, did not have a material impact on our consolidated financial position or results of operations.

In 2001, the FASB issued SFAS 143, Accounting for Asset Retirement Obligations. SFAS 143 requires companies to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred, which is adjusted to its present value each subsequent period. In addition, companies must capitalize a corresponding amount by increasing the carrying amount of the related long-lived asset, which is depreciated over the useful life of the related long-lived asset. We will adopt SFAS 143 effective as of January 1, 2003, and do not expect that this statement will have a material impact on our consolidated financial position or results of operations.

In 2001, the FASB issued SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 provides additional restrictive criteria that are required to be met to classify an asset as held-for-sale. This statement also requires expected future operating losses from discontinued operations to be recorded in the period in which the losses are incurred (rather than as of the date management commits to a formal plan to dispose of a segment as previously required). In addition, more dispositions will qualify for discontinued operations treatment in the income statement. We adopted SFAS 144 effective January 1, 2002, and any future impairments or disposals of long-lived assets will be subject to this statement.

In 2002, the FASB issued SFAS 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS 145 eliminates the classification of debt extinguishments as extraordinary items. We will adopt this statement effective January 1, 2003, and our extraordinary item resulting from debt extinguishments in 2001 will be reclassified as interest expense. The adoption of this statement will have no impact on our net results of operations.

In 2002, the FASB issued SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Severance pay under SFAS 146, in many cases, would be recognized over the remaining service period rather than at the time the plan is communicated. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002. We will adopt SFAS 146 for any actions initiated after January 1, 2003, and any future exit costs or disposal activities will be subject to this statement.

In 2002, the FASB issued FASB Interpretation (FIN) 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 requires an issuer of a guarantee to recognize an initial liability for the fair value of the obligations covered by the guarantee. FIN 45 also addresses the disclosures required by a guarantor in interim and annual financial statements regarding obligations under guarantees. We will adopt the requirement for recognition of the liability for the fair value of guaranteed obligations prospectively for guarantees entered into after January 1, 2003. We adopted the disclosure provisions as of December 31, 2002.

In 2003, the FASB issued FIN 46, Consolidation of Variable Interest Entities. FIN 46 defines a variable interest entity (VIE) as a corporation, partnership, trust, or any other legal structure that does not have equity investors with a controlling financial interest or has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires consolidation of a VIE by the primary beneficiary of the assets, liabilities, and results of activities effective in 2003. FIN 46 also requires certain disclosures by all holders of a significant variable interest in a VIE that are not the primary beneficiary. We do not have any material investments in variable interest entities; therefore, the adoption of this interpretation will have no impact on our consolidated financial position or results of operations.

Note 3: Collaborations and Dispositions

In September 2002, we entered into a collaboration arrangement with Amylin Pharmaceuticals, Inc. (Amylin), to jointly develop and commercialize Amylin's synthetic exendin-4 compound, a potential new treatment for type 2 diabetes. In 2001, we entered into collaboration arrangements with three companies. In August, we licensed from Isis Pharmaceuticals, Inc. (Isis), a non-small-cell lung cancer drug candidate and entered into an agreement regarding an ongoing research collaboration. In September, we entered into a collaboration with Bioprojet, Société Civile de Recherche, to jointly develop and commercialize a vasopeptidase inhibitor (fasidotril) for hypertension and chronic heart failure. In October, we entered into a collaboration with Minnesota Mining and Manufacturing Company to jointly develop and commercialize an immune response modifier (resiquimod) for various forms of herpes. The ongoing activity with respect to each of these agreements is not material to our research and development expenses.

These compounds are in the development phase (late Phase II / early Phase III clinical trials) and no alternative future uses were identified. As with many late Phase II / early Phase III compounds, launch of the products, if approved, was not expected in the near term. Our charge for acquired in-process research and development expense related to these arrangements totaled $84.0 million and $190.5 million in 2002 and 2001, respectively.

In conjunction with the collaboration arrangements with Amylin and Isis, we also entered into loan agreements with both parties. Following the successful completion of the ongoing clinical trials and contingent upon certain other events, we have agreed to loan Amylin up to $110 million during the development period of the product, repayable in cash or Amylin stock at our option. As of December 31, 2002, no loans to Amylin were outstanding. We have also agreed to loan Isis $100 million over the four-year term of the research agreement. The Isis loan is repayable at the end of the research agreement term in cash or Isis stock, at Isis's option, using a conversion price of $40 per share. As of December 31, 2002, $47.5 million had been advanced to Isis pursuant to the terms of this agreement.

During the first quarter of 2000, we sold our interest in Kinetra LLC, a joint venture between us and EDS, to WebMD Corporation (WebMD) in exchange for shares of WebMD common stock. A gain of $214.4 million was recognized on the combined effect of the transaction and the subsequent sale of the majority of those shares of WebMD stock. The gain is included in other income in the consolidated statements of income.

Note 4: Asset Impairment and Other Site Charges

We periodically assess our worldwide manufacturing capacity to maximize the efficiency of our worldwide manufacturing operations. As a result of this strategic review, we recognized asset impairment and other site charges totaling $121.4 million in the third quarter of 2001. The charges principally consist of impairments of facilities and equipment that were substantially disposed of in 2002, termination of third-party manufacturing arrangements, and a plant closure in Taiwan. The impairment charges were necessary to adjust the carrying value of certain manufacturing assets to fair value. The fair value of the assets was estimated based upon anticipated future cash flows, discounted at a rate commensurate with the risk involved. Approximately $18 million of this charge was for severance-related costs, which were fully expended during 2002.

Note 5: Financial Instruments and Investments

Financial instruments that potentially subject us to credit risk consist principally of trade receivables and interest-bearing investments. Wholesale distributors of life-sciences products and managed care organizations account for a substantial portion of trade receivables; collateral is generally not required. The risk associated with this concentration is mitigated by our ongoing credit review procedures. We place substantially all our interest-bearing investments with major financial institutions, in U.S. government securities, or with top-rated corporate issuers. In accordance with documented corporate policies, we limit the amount of credit exposure to any one financial institution. We are exposed to credit-related losses in the event of nonperformance by counterparties to financial instruments but do not expect any counterparties to fail to meet their obligations given their high credit ratings.

Fair Value of Financial Instruments

A summary of our outstanding financial instruments and other investments at December 31 follows:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Short-term investments				
Debt securities	**$1,708.8**	**$1,708.8**	$1,028.7	$1,028.7
Noncurrent investments				
Marketable equity	**$ 85.9**	**$ 85.9**	$ 179.6	$ 179.6
Debt securities	**2,458.6**	**2,458.6**	1,983.7	1,984.1
Equity method and other investments	**605.9**	**N/A**	547.6	N/A
	$3,150.4		$2,710.9	
Long-term debt, including current portion	**$4,643.6**	**$4,886.7**	$3,144.3	$3,258.1

We determine fair values based on quoted market values where available or discounted cash flow analyses (principally long-term debt). The fair value of equity method investments is not readily available and disclosure is not required. The fair value and carrying amount of risk-management instruments in the aggregate were not material at December 31, 2002 and 2001. Approximately $3.1 billion of our investments in debt securities mature within five years.

A summary of the unrealized gains and losses (pretax) of our available-for-sale securities in other comprehensive income at December 31 follows:

	2002	2001
Unrealized gross gains	**$77.4**	$65.6
Unrealized gross losses	**87.7**	8.5

The net adjustment to unrealized gains and losses (net of tax) on available-for-sale securities increased (decreased) other comprehensive income by ($45.0) million, $34.3 million, and ($12.3) million in 2002, 2001, and 2000, respectively. Activity related to our available-for-sale investment portfolio was as follows:

	2002	2001	2000
Proceeds from sales	**$3,724.2**	$1,826.3	$773.8
Realized gross gains on sales	**57.0**	14.1	71.6
Realized gross losses on sales	**35.2**	0.1	16.5

During the years ended December 31, 2002 and 2001, net losses related to ineffectiveness and net losses related to the portion of fair value and cash flow hedging instruments excluded from the assessment of effectiveness were not material.

We expect to reclassify approximately $44.7 million of pretax net losses on cash flow hedges of anticipated foreign currency transactions and the variability in expected future interest payments on floating rate debt, from accumulated other comprehensive loss to earnings during 2003. This assumes that short-term interest rates remain unchanged from the prevailing rates at December 31, 2002.

Note 6: Borrowings

Long-term debt at December 31 consisted of the following:

	2002	2001
6.00 to 7.13 percent notes (due 2012-2036)	**$1,287.4**	$ 787.4
5.50 to 8.38 percent notes (due 2003-2006)	**711.4**	711.4
Floating rate bonds (due 2008-2031)	**666.6**	505.0
Private placement bonds (due 2007)	**542.8**	—
Floating rate capital securities (due 2029)	**525.0**	525.0
8.38 percent eurodollar bonds (due 2005)	**150.0**	150.0
Resettable coupon capital securities (due 2029)	**300.0**	300.0
6.55 percent ESOP debentures (due 2017)	**95.6**	96.6
Other, including capitalized leases	**130.8**	64.6
SFAS 133 fair value adjustment	**234.0**	4.3
	4,643.6	3,144.3
Less current portion	**285.4**	12.2
	$4,358.2	$3,132.1

In July 2002 and May 2001, we issued $150.0 million and $250.0 million, respectively, of floating rate bonds that mature in 2031. The variable interest rate on these bonds is at LIBOR (1.4 percent at December 31, 2002) and beginning May 15, 2004, will adjust every six months to reflect our six-month credit spread. The interest accumulates over the life of the bonds and is payable upon maturity. We have an option to begin periodic interest payments any time after May 15, 2004. At the time of option exercise, we would owe all previously accrued interest on the bonds. Additionally, in July 2002, we executed a $542.8 million private placement note with a financial institution. Principal and interest are due semiannually over the five-year term of this note. In conjunction with this note, we entered into an interest rate swap agreement with the same financial institution, which converts the fixed rate into a variable rate of interest at essentially LIBOR over the term of the note. In March 2002, we issued $500.0 million of 10-year 6.0 percent bonds. In addition, in 2001, we issued $400.0 million of 5.5 percent notes due July 2006 and $249.5 million of floating rate bonds due October 2008.

The floating rate capital securities and the resettable coupon capital securities are subordinated to the notes, bonds, and debentures listed above. The floating rate capital securities pay cumulative interest at an annual rate equal to LIBOR plus a predetermined spread, reset quarterly. The rates at December 31, 2002 and 2001, were 2.86 percent and 3.41 percent, respectively. The securities may be redeemed any time on or after August 5, 2004, for a defined redemption price. The resettable coupon capital securities pay cumulative interest at an annual rate of 7.72 percent until August 1, 2004. At this date and every fifth anniversary thereafter, the interest rate will be reset equal to the weekly average interest rate of U.S. treasury securities having an index maturity of five years for the week immediately preceding the reset date plus a predetermined spread. The securities may be redeemed on August 1, 2004, and anytime thereafter for a defined redemption price.

The 6.55 percent Employee Stock Ownership Plan (ESOP) debentures are obligations of the ESOP but are shown on the consolidated balance sheet because we guarantee them. The principal and interest on the debt are funded by contributions from us and by dividends received on certain shares held by the ESOP. Because of the amortizing feature of the ESOP debt, bondholders will receive both interest and principal payments each quarter.

In 2001, we repurchased $188.6 million of 8.38 percent notes due in 2006, $14.0 million of 6.77 percent notes due in 2036, and $198.6 million of 7.13 percent notes due in 2025. As a result of this debt repurchase, we recognized an extraordinary charge of $29.4 million, net of a $15.8 million income tax benefit.

The aggregate amounts of maturities on long-term debt for the next five years are as follows: 2003, $285.4 million; 2004, $130.6 million; 2005, $282.0 million; 2006, $641.5 million; and 2007, $130.9 million.

At December 31, 2002 and 2001, short-term borrowings included $260.0 million and $274.1 million, respectively, of notes payable to banks. Included in short-term borrowings are $250.0 million of 4.23 percent one-year resettable notes issued in March 2001. The notes have a final maturity of 2011. Annually, we will remarket or redeem the notes at the option of the underwriter. At December 31, 2002, unused committed lines of credit totaled approximately $1.23 billion. Compensating balances and commitment fees are not material, and there are no conditions that are probable of occurring under which the lines may be withdrawn.

We have converted substantially all fixed rate debt to floating rates through the use of interest rate swaps. The weighted-average effective borrowing rate based on debt obligations and interest rates at December 31, 2002 and 2001, including the effects of interest rate swaps for hedged debt obligations, was 3.5 percent and 4.2 percent, respectively.

Cash payments of interest on borrowings totaled $54.6 million, $126.4 million, and $195.9 million in 2002, 2001, and 2000, respectively.

In accordance with the requirements of SFAS 133, the portion of our fixed-rate debt obligations that is hedged is reflected in the consolidated balance sheet as an amount equal to the sum of the debt's carrying value plus the fair value adjustment representing changes in fair value of the hedged debt attributable to movements in market interest rates subsequent to the inception of the hedge.

Note 7: Stock Plans

Stock options are granted to employees at exercise prices equal to the fair market value of the company's stock at the dates of grant. Generally, options vest 100 percent 3 years from the grant date and have a term of 10 years. Performance awards are granted to officers and key employees and are payable in shares of our common stock. The number of performance award shares actually issued, if any, varies depending upon the achievement of certain earnings targets. In general, performance awards vest 100 percent at the end of the second fiscal year following the grant date. No performance awards were granted in 2002.

We issued a grant under the GlobalShares program in 2001. Essentially all employees were given an option to buy 125 shares of our stock at a price equal to the fair market value of our stock on the date of the grant. Options to purchase approximately 4.3 million shares were granted as part of the program in 2001. Individual grants generally become exercisable on or after the third anniversary of the grant date and have a term of 10 years.

In the fourth quarter of 2000, we changed the timing of the annual option grant to management from the fourth quarter to the first quarter of the following year. This resulted in a reduction in options granted in 2000. We also issued a special stock option grant in 2001 to global management and all employees in the U.S. and Puerto Rico. This option grant was designed to retain and motivate employees affected by the compensation changes due to the Prozac patent expiration. Options to purchase approximately 10.0 million shares were granted as part of this program at a price equal to the fair market value on the date of the grant. Approximately 7.3 million of these options vested in 2002 with the remainder vesting in 2003.

We have elected to follow APB Opinion 25 and related interpretations in accounting for our stock options and performance awards. See Note 1 for a calculation of our net income and earnings per share under the fair value method pursuant to SFAS 123.

The weighted-average per-share fair values of the individual options and performance awards granted during 2002, 2001, and 2000 were as follows on the date of grant:

	2002	2001	2000
Employee stock options	**$25.98**	$26.59	$29.25
Performance awards	**N/A**	78.86	93.06

The fair values of the options calculated in accordance with SFAS 123 were determined using a Black-Scholes option-pricing model with the following assumptions:

	2002	2001	2000
Dividend yield	**1.54%**	1.80%	2.26%
Volatility	**35.00%**	33.10%	32.70%
Risk-free interest rate	**3.14%**	4.58%	5.02%
Forfeiture rate	**0**	0	0
Expected life	**7 years**	7 years	7 years

Stock option activity during 2000-2002 is summarized below:

	Shares of Common Stock Attributable to Options (in thousands)	Weighted-Average Exercise Price of Options
Unexercised at January 1, 2000	53,723	$43.08
Granted	1,315	86.75
Exercised	(9,242)	22.33
Forfeited	(671)	64.97
Unexercised at December 31, 2000	45,125	48.28
Granted	26,883	76.10
Exercised	(4,298)	26.72
Forfeited	(612)	71.20
Unexercised at December 31, 2001	67,098	60.60
Granted	14,133	74.33
Exercised	(3,357)	21.18
Forfeited	(1,819)	70.95
Unexercised at December 31, 2002	76,055	64.65

The following table summarizes information concerning outstanding and exercisable options at December 31, 2002 (shares in millions, contractual life in years):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$10 - $25	10.17	2.09	$19.31	10.17	$19.31
$25 - $65	8.86	5.07	53.11	8.13	52.79
$65 - $75	32.77	7.23	72.00	18.13	70.42
$75 - $95	24.26	8.90	77.93	8.18	78.88

Shares exercisable at December 31, 2002, 2001, and 2000, were 44.6 million, 35.2 million, and 26.1 million, respectively.

As noted above, the number of shares ultimately issued for the performance award program is dependent upon the earnings achieved during the vesting period. Pursuant to this plan, approximately 0.4 million shares, 0.8 million shares, and 1.2 million shares were issued in 2002, 2001, and 2000, respectively. No shares will be issued in 2003.

At December 31, 2002, additional options, performance awards, or restricted stock grants may be granted under the 2002 Lilly Stock Plan and the Lilly GlobalShares Stock Plan for not more than 87.7 million shares and 0.7 million shares, respectively.

Note 8: Other Assets and Other Liabilities

Our sundry assets include our capitalized computer software, prepaid retiree health benefit (Note 12), goodwill and other intangibles (Note 1), estimated insurance recoveries from our product litigation and environmental contingencies (Note 13), long-term deferred income tax assets (Note 11), and a variety of other items. The increase in sundry assets is primarily attributable to an increase in capitalized computer software.

Our other current liabilities include our sales discount and rebate accruals including our Medicaid rebate accrual, deferred income from our collaboration agreements and outlicensing arrangements, other taxes, deferred income taxes payable (Note 11), interest payable, and a variety of other items. The increase in other current liabilities is primarily attributable to deferred income from our collaboration agreements and outlicensing arrangements.

Our other noncurrent liabilities include the accrued liabilities from our pension and retiree health plans (Note 12), deferred income taxes (Note 11), product liability litigation and environmental accruals (Note 13), deferred income from our collaboration agreements and outlicensing arrangements, and a variety of other items. The increase in other noncurrent liabilities is primarily attributable to deferred income from collaboration agreements and outlicensing arrangements and deferred income taxes.

None of the components of sundry assets exceeds five percent of total assets and none of the components of other current liabilities or other noncurrent liabilities exceeds five percent of total liabilities.

Note 9: Shareholders' Equity

Changes in certain components of shareholders' equity were as follows:

	Additional Paid-in Capital	Retained Earnings	Deferred Costs-ESOP	Common Stock in Treasury	
				Shares (in thousands)	Amount
Balance at January 1, 2000	$ —	$ 4,985.6	$(139.9)	989	$ 108.3
Net income		3,057.8			
Cash dividends declared per share: $1.06		(1,158.4)			
Retirement of treasury shares	(1,117.6)			(15,256)	(1,126.9)
Purchase for treasury	34.3			14,794	1,089.8
Issuance of stock under employee stock plans	405.6			494	39.8
Issuance of stock for employee benefit trust	2,610.0				
ESOP transactions	16.7		4.9		
Other	(0.6)	(0.2)		(14)	(1.5)
Reclassification	661.6	(661.6)			
Balance at December 31, 2000	2,610.0	6,223.2	(135.0)	1,007	109.5
Net income		2,780.0			
Cash dividends declared per share: $1.15		(1,232.8)			
Retirement of treasury shares	(581.8)			(7,368)	(586.7)
Purchase for treasury	(24.8)			7,176	571.0
Issuance of stock under employee stock plans	229.0			170	13.6
ESOP transactions	18.4		5.9		
Other	0.1	(0.1)			
Reclassification	359.1	(359.1)			
Balance at December 31, 2001	2,610.0	7,411.2	(129.1)	985	107.4
Net income		2,707.9			
Cash dividends declared per share: $1.27		(1,370.7)			
Retirement of treasury shares	(393.9)			(4,677)	(396.8)
Purchase for treasury				4,532	389.2
Issuance of stock under employee stock plans	131.8			168	9.7
ESOP transactions	13.8		5.8		
Reclassification	248.3	(248.3)			
Balance at December 31, 2002	$ 2,610.0	$ 8,500.1	$(123.3)	1,008	$ 109.5

As of December 31, 2002, we have purchased $1.80 billion of our announced $3.0 billion share repurchase program. We acquired approximately 4.5 million, 7.2 million, and 14.8 million shares in 2002, 2001, and 2000, respectively, under our share repurchase programs.

In connection with our share repurchase programs, we have entered into agreements to purchase shares of our stock. As of December 31, 2002, we have agreements to purchase up to approximately 3.0 million shares of our stock from an independent third party at various times through the expiration of the agreements in December 2003 at prices ranging from $85 to $100 per share and with a weighted average of approximately $93 per share. The number of shares to be purchased will be reduced ratably each quarter through the expiration of the agreements. Our objective in entering into the above agreements was to reduce the average price of repurchased shares.

We have five million authorized shares of preferred stock. As of December 31, 2002 and 2001, no preferred stock has been issued.

In 2000, we funded an employee benefit trust with 40 million shares of Lilly common stock to provide a source of funds to assist us in meeting our obligations under various employee benefit plans. The funding had no net impact on shareholders' equity as we consolidated the employee benefit trust. The cost basis of the shares held in the trust was $2.64 billion and is shown as a reduction

in shareholders' equity, which offsets the resulting increases of $2.61 billion in additional paid-in capital and $25 million in common stock. Any dividend transactions between us and the trust are eliminated. Stock held by the trust is not considered outstanding in the computation of earnings per share.

We have an ESOP as a funding vehicle for the existing employee savings plan. The ESOP used the proceeds of a loan from us to purchase shares of common stock from the treasury. The ESOP issued $200 million of third-party debt, repayment of which was guaranteed by us (see Note 6). The proceeds were used to purchase shares of our common stock on the open market. Shares of common stock held by the ESOP will be allocated to participating employees annually through 2017 as part of our savings plan contribution. The fair value of shares allocated each period is recognized as compensation expense.

Under a Shareholder Rights Plan adopted in 1998, all shareholders receive, along with each common share owned, a preferred stock purchase right entitling them to purchase from the company one one-thousandth of a share of Series B Junior Participating Preferred Stock (the Preferred Stock) at a price of $325. The rights are exercisable only after the Distribution Date, which is generally the 10th business day after the date of a public announcement that a person (the Acquiring Person) has acquired ownership of 15 percent or more of our common stock. We may redeem the rights for $.005 per right up to and including the Distribution Date. The rights will expire on July 28, 2008, unless we redeem them earlier.

The plan provides that, if an Acquiring Person acquires 15 percent or more of our outstanding common stock and our redemption right has expired, generally each holder of a right (other than the Acquiring Person) will have the right to purchase at the exercise price the number of shares of our common stock that have a value of two times the exercise price.

Alternatively, if, in a transaction not approved by the board of directors, we are acquired in a business combination transaction or sell 50 percent or more of our assets or earning power after a Distribution Date, generally each holder of a right (other than the Acquiring Person) will have the right to purchase at the exercise price the number of shares of common stock of the acquiring company that have a value of two times the exercise price.

At any time after an Acquiring Person has acquired 15 percent or more but less than 50 percent of our outstanding common stock, the board of directors may exchange the rights (other than those owned by the Acquiring Person) for our common stock or Preferred Stock at an exchange ratio of one common share (or one one-thousandth of a share of Preferred Stock) per right.

Note 10: Earnings per Share

The following is a reconciliation of the denominators used in computing earnings per share before extraordinary item:

	2002	2001	2000
		(Shares in thousands)	
Income before extraordinary item available to common shareholders	**$ 2,707.9**	$ 2,809.4	$ 3,057.8
Basic earnings per share			
Weighted-average number of common shares outstanding, including incremental shares	**1,076,922**	1,077,497	1,081,559
Basic earnings per share before extraordinary item	**$ 2.51**	$ 2.61	$ 2.83
Diluted earnings per share			
Weighted-average number of common shares outstanding	**1,076,873**	1,077,390	1,081,409
Stock options and other incremental shares	**8,215**	13,403	16,316
Weighted-average number of common shares outstanding — diluted	**1,085,088**	1,090,793	1,097,725
Diluted earnings per share before extraordinary item	**$ 2.50**	$ 2.58	$ 2.79

Note 11: Income Taxes

Following is the composition of income taxes before extraordinary item:

	2002	2001	2000
Current			
Federal	**$ 140.1**	$ 313.4	$ 928.4
Foreign	**306.3**	247.9	322.4
State	**(13.4)**	16.6	(7.2)
	433.0	577.9	1,243.6
Deferred			
Federal	**366.1**	240.5	(81.2)
Foreign	**(47.3)**	34.6	(58.6)
State	**(2.0)**	0.2	0.9
	316.8	275.3	(138.9)
Utilization of capital loss carryforwards	**—**	(110.5)	(303.8)
Income taxes	**$ 749.8**	$ 742.7	$ 800.9

Significant components of our deferred tax assets and liabilities as of December 31 are as follows:

	2002	2001
Deferred tax assets		
Sale of intangibles	**$ 485.3**	$ 416.4
Other carryforwards	**398.4**	354.9
Compensation and benefits	**250.0**	230.2
Asset purchases	**103.0**	95.0
Tax credit carryforwards and carrybacks	**93.6**	321.3
Inventory	**61.3**	89.5
Other	**467.6**	304.6
	1,859.2	1,811.9
Valuation allowances	**(382.2)**	(332.2)
Total deferred tax assets	**1,477.0**	1,479.7
Deferred tax liabilities		
Prepaid employee benefits	**(626.6)**	(474.0)
Property and equipment	**(480.4)**	(528.0)
Unremitted earnings	**(115.6)**	(63.9)
Other	**(84.7)**	(19.4)
Total deferred tax liabilities	**(1,307.3)**	(1,085.3)
Deferred tax assets — net	**$ 169.7**	$ 394.4

At December 31, 2002, we had other carryforwards for international and U.S. income tax purposes of $142.9 million: $93.9 million will expire within five years and $32.3 million thereafter; $16.7 million of the carryforwards will never expire. The primary component of the remaining portion of the deferred tax asset for other carryforwards is related to net operating losses for state income tax purposes that are fully reserved. We also have tax credit carryforwards of $93.6 million available to reduce future income taxes: $54.6 million will expire within five years and $23.9 million thereafter; $15.1 million of the tax credit carryforwards will never expire.

Domestic and Puerto Rican companies contributed approximately 28 percent, 55 percent, and 56 percent in 2002, 2001, and 2000, respectively, to consolidated income before income taxes and extraordinary item. At December 31, 2002, we had an aggregate of $8.0 billion of unremitted earnings of foreign subsidiaries that have been, or are intended to be, permanently reinvested for continued use in foreign operations and that, if distributed, would result in taxes at approximately the U.S. statutory rate. We have a subsidiary operating in Puerto Rico under a tax incentive grant that begins to expire at the end of 2007. Cash payments of income taxes totaled $864.0 million, $320.0 million, and $294.0 million in 2002, 2001, and 2000, respectively.

We reached agreement with the Internal Revenue Service (IRS) in 2002 with respect to its examination of the tax years 1996 and 1997. Resolution of the examination did not have a material adverse effect on our consolidated financial position, results of operations, or liquidity. The increase in cash payments of income taxes in 2002 is primarily attributable to this resolution.

Following is a reconciliation of the effective income tax rate applicable to income before extraordinary item:

	2002	2001	2000
United States federal statutory tax rate	**35.0%**	35.0%	35.0%
Add (deduct)			
International operations, including Puerto Rico	**(12.6)**	(13.9)	(12.9)
General business credits	**(0.7)**	(1.1)	(1.2)
Sundry	**—**	0.9	(0.1)
Effective income tax rate	**21.7%**	20.9%	20.8%

Note 12: Retirement Benefits

The change in benefit obligation, change in plan assets, funded status, and amounts recognized in the consolidated balance sheets at December 31 for our defined benefit pension and retiree health benefit plans were as follows:

	Defined Benefit Pension Plans		Retiree Health Benefits	
	2002	2001	2002	2001
Change in benefit obligation				
Benefit obligation at beginning of year	**$3,598.7**	$3,380.1	**$ 928.2**	$ 751.3
Service cost	**170.2**	156.0	**34.0**	28.7
Interest cost	**254.3**	242.4	**64.5**	53.8
Actuarial loss	**61.8**	88.5	**104.6**	135.6
Benefits paid	**(234.9)**	(218.0)	**(73.5)**	(64.7)
Retiree medical plan changes	**—**	—	**(151.0)**	—
Foreign currency exchange rate changes and other adjustments	**91.0**	(50.3)	**4.8**	23.5
Benefit obligation at end of year	**3,941.1**	3,598.7	**911.6**	928.2
Change in plan assets				
Fair value of plan assets at beginning of year	**3,182.1**	3,732.1	**373.4**	349.2
Actual return on plan assets	**(224.9)**	(382.3)	**(46.1)**	(37.6)
Employer contribution	**402.7**	63.1	**161.1**	126.5
Benefits paid	**(234.9)**	(218.0)	**(73.5)**	(64.7)
Foreign currency exchange rate changes and other adjustments	**36.3**	(12.8)	**.1**	—
Fair value of plan assets at end of year	**3,161.3**	3,182.1	**415.0**	373.4
Funded status	**(779.8)**	(416.6)	**(496.6)**	(554.8)
Unrecognized net actuarial loss	**2,028.0**	1,142.7	**698.9**	531.1
Unrecognized prior service cost (benefit)	**78.3**	209.6	**(148.6)**	1.7
Net amount recognized	**$1,326.5**	$ 935.7	**$ 53.7**	$ (22.0)
Amounts recognized in the consolidated balance sheet consisted of				
Prepaid pension	**$1,515.4**	$1,102.8	**$ 127.3**	$ 42.9
Accrued benefit liability	**(398.1)**	(371.7)	**(73.6)**	(64.9)
Accumulated other comprehensive income before income taxes	**209.2**	204.6	**—**	—
Net amount recognized	**$1,326.5**	$ 935.7	**$ 53.7**	$ (22.0)

(Percents)	Defined Benefit Pension Plans 2002	Defined Benefit Pension Plans 2001	Retiree Health Benefits 2002	Retiree Health Benefits 2001
Weighted-average assumptions as of December 31				
Discount rate	**6.8**	7.2	**6.9**	7.2
Expected return on plan assets	**9.26**	10.5	**9.25**	10.5
Rate of compensation increase	**3.0-5.5**	3.5-8.0	**—**	—

Health-care-cost trend rates were assumed to increase at an annual rate of 6 percent in 2002 and 10 percent in 2003, decreasing 1 percent per year to 6 percent in 2007 and thereafter.

The projected benefit obligation, accumulated benefit obligation, and fair value of the plan assets for the defined benefit pension plans with projected benefit obligations in excess of plan assets were $3.94 billion, $3.47 billion, and $3.16 billion, respectively, as of December 31, 2002, and $778.3 million, $673.0 million, and $325.1 million, respectively, as of December 31, 2001. As a result of declines in the fair value of plan assets, the projected benefit obligations exceeded the plan assets for two additional plans in 2002. The plan assets in our defined benefit pension plans and retiree medical plans are composed substantially of equity instruments.

Net pension and retiree health benefit expense included the following components:

	Defined Benefit Pension Plans 2002	Defined Benefit Pension Plans 2001	Defined Benefit Pension Plans 2000	Retiree Health Benefits 2002	Retiree Health Benefits 2001	Retiree Health Benefits 2000
Components of net periodic benefit cost						
Service cost	**$ 170.2**	$ 156.0	$ 130.1	**$ 34.0**	$ 28.7	$ 23.2
Interest cost	**254.3**	242.4	219.6	**64.5**	53.8	49.6
Expected return on plan assets	**(398.0)**	(382.3)	(341.0)	**(50.8)**	(40.1)	(30.1)
Amortization of prior service cost	**16.1**	19.3	16.9	**(0.7)**	0.1	0.1
Recognized actuarial loss	**21.9**	9.8	5.9	**36.0**	23.6	21.9
Net periodic benefit cost	**$ 64.5**	$ 45.2	$ 31.5	**$ 83.0**	$ 66.1	$ 64.7

If the health-care-cost trend rates were to be increased by one percentage point each future year, the December 31, 2002, accumulated postretirement benefit obligation would increase by 18 percent and the aggregate of the service cost and interest cost components of the 2002 annual expense would increase by 16 percent. A one-percentage-point decrease in these rates would decrease the December 31, 2002, accumulated postretirement benefit obligation by 15 percent and the aggregate of the 2002 service cost and interest cost by 14 percent.

We have defined contribution savings plans that cover our eligible employees worldwide. The purpose of these defined contribution plans is generally to provide additional financial security during retirement by providing employees with an incentive to save. Our contributions to the plan are based on employee contributions and the level of our match. Expenses under the plans totaled $41.7 million, $39.3 million, and $65.2 million for the years 2002, 2001, and 2000, respectively.

We provide certain other postemployment benefits primarily related to disability benefits and accrue for the related cost over the service lives of employees. Expenses associated with these benefit plans in 2002, 2001, and 2000 were not significant.

Note 13: Contingencies

In February 2001, we were notified that Zenith Goldline Pharmaceuticals, Inc. (Zenith), had submitted an abbreviated new drug application (ANDA) seeking permission to market a generic version of Zyprexa in various dosage forms several years prior to the expiration of our U.S. patents for the product. Zenith alleges that our patents are invalid or not infringed. On April 2, 2001, we filed suit against Zenith in federal district court in Indianapolis seeking a ruling that Zenith's challenge to the U.S. compound patent (expiring in 2011) is without merit. In May 2001, we were notified that Dr. Reddy's Laboratories, Ltd. (Reddy), had also filed an ANDA covering two dosage forms, alleging that the patents are invalid or not infringed. On June 26, 2001, we filed a similar patent infringement suit against Reddy in federal district court in Indianapolis. Thereafter, we were notified that Reddy had filed an ANDA for additional dosage forms and in February 2002, we filed an infringement suit in the same court based on Reddy's additional ANDA. We received notice in August 2002 of a similar ANDA filing by Teva Pharmaceuticals, and in September 2002, we filed suit against Teva in the same court. The cases have been consolidated and are in the discovery stage. We currently expect a trial date to be scheduled for the fourth quarter of 2003. We believe that the generic manufacturers' patent claims are without merit and we

expect to prevail in this litigation. However, it is not possible to predict or determine the outcome of this litigation and, accordingly, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

In October 2002, we were notified that Barr Laboratories, Inc. (Barr), had submitted an ANDA with the U.S. FDA seeking permission to market a generic version of Evista several years prior to the expiration of our U.S. patents covering the product, alleging that the patents are invalid or not infringed. On November 26, 2002, we filed suit against Barr in federal district court in Indianapolis seeking a ruling that Barr's challenges to our patents claiming the method of use and pharmaceutical form (expiring from 2012 to 2017) are without merit. While we believe that Barr's claims are without merit and expect to prevail, it is not possible to predict or determine the outcome of the litigation. Therefore we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

We have been named as a defendant in numerous product liability lawsuits, involving primarily diethylstilbestrol (DES) and thimerosal. We have accrued for our estimated exposure with respect to all current product liability claims. In addition, we have accrued for certain product liability claims incurred, but not filed, to the extent we can formulate a reasonable estimate of their costs. We estimate these expenses based primarily on historical claims experience and data regarding product usage. We expect the cash amounts related to the accruals to be paid out over the next several years. A portion of the costs associated with defending and disposing of these suits is covered by insurance. We estimate insurance recoverables based on existing deductibles, coverage limits, and the existing and projected future level of insolvencies among the insurance carriers.

Under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund, we have been designated as one of several potentially responsible parties with respect to fewer than 10 sites. Under Superfund, each responsible party may be jointly and severally liable for the entire amount of the cleanup. We also continue remediation of certain of our own sites. We have accrued for estimated Superfund cleanup costs, remediation, and certain other environmental matters, taking into account, as applicable, available information regarding site conditions, potential cleanup methods, estimated costs, and the extent to which other parties can be expected to contribute to payment of those costs. We have reached a settlement with our primary liability insurance carrier and certain excess carriers providing for coverage for certain environmental liabilities. Litigation seeking coverage from certain other excess carriers is ongoing.

The environmental liabilities and litigation accruals have been reflected in our consolidated balance sheet at the gross amount of approximately $267.4 million at December 31, 2002. Estimated insurance recoverables of approximately $111.7 million at December 31, 2002, have been reflected as assets in the consolidated balance sheet.

While it is not possible to predict or determine the outcome of the patent, product liability, or other legal actions brought against us or the ultimate cost of environmental matters, we believe that, except as noted above with respect to the Zyprexa and Evista patent litigation, the costs associated with all such matters will not have a material adverse effect on our consolidated financial position or liquidity but could possibly be material to the consolidated results of our operations in any one accounting period.

Note 14: Other Comprehensive Income (Loss)

The accumulated balances related to each component of other comprehensive income (loss) were as follows:

	Foreign Currency Translation Gains (Losses)	Unrealized Gains (Losses) on Securities	Minimum Pension Liability Adjustment	Effective Portion of Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Beginning balance at January 1, 2002	$(630.1)	$ 42.1	$(134.8)	$ (25.6)	$(748.4)
Other comprehensive income (loss)	273.6	(45.0)	(3.0)	(148.0)	77.6
Balance at December 31, 2002	$(356.5)	$ (2.9)	$(137.8)	$(173.6)	$(670.8)

The amounts above are net of income taxes. The income taxes related to other comprehensive income were not significant as income taxes were generally not provided for foreign currency translation.

The unrealized gains (losses) on securities is net of reclassification adjustments of $11.3 million, $12.3 million, and $43.9 million, net of tax, in 2002, 2001, and 2000, respectively, for net realized gains on sales of securities included in net income. The effective portion of cash flow hedges is net of reclassification adjustments of $6.5 million, net of tax, in 2002 for interest expense on interest rate swaps designated as cash flow hedges and $16.5 million, net of tax, in 2001 for realized gains on foreign currency options.

Generally, the assets and liabilities of foreign operations are translated into U.S. dollars using the current exchange rate. For those operations, changes in exchange rates generally do not affect cash flows; therefore, resulting translation adjustments are made in shareholders' equity rather than in income.

Responsibility for Financial Statements

Eli Lilly and Company and Subsidiaries

Management of Eli Lilly and Company is responsible for the fair presentation of the financial statements and has full responsibility for their accuracy and integrity. The statements have been prepared in accordance with generally accepted accounting principles in the United States and include amounts based on judgments and estimates by management.

We have global financial policies that govern critical areas, including internal controls, financial accounting and reporting, fiduciary accountability, and safeguarding of corporate assets. Our internal accounting control systems are designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorization and are properly recorded, and that accounting records are adequate for preparation of financial statements and other financial information. The design, monitoring, and revision of internal accounting control systems involve, among other things, management's judgments with respect to the relative cost and expected benefits of specific control measures. A staff of internal auditors regularly monitors, on a worldwide basis, the adequacy and effectiveness of internal accounting controls. The general auditor reports directly to the audit committee of the board of directors.

In addition to the system of internal accounting controls, we maintain a code of conduct (known as the *Red Book*) that applies to all employees worldwide, requiring proper overall business conduct, avoidance of conflicts of interest, compliance with laws, and confidentiality of proprietary information. The *Red Book* is reviewed on a periodic basis with employees worldwide and all employees are required to report suspected violations. A hotline number is published in the *Red Book* to enable employees to report suspected violations anonymously. Employees who report suspected violations are protected from discrimination or retaliation by the company. In addition to the *Red Book*, all financial management must agree, in writing, to a financial code of ethics, which further reinforces their fiduciary responsibilities.

The financial statements have been audited by Ernst & Young LLP, independent auditors. Their responsibility is to examine our consolidated financial statements in accordance with generally accepted auditing standards in the United States and to express their opinion with respect to the fairness of presentation of the statements. Ernst & Young reports directly to the audit committee of the board of directors.

Our audit committee comprises four nonemployee members of the board of directors, all of whom are independent from our company. The committee charter, which is published in the proxy statement, outlines the members' roles and responsibilities and is consistent with the newly enacted corporate reform laws and regulations. It is the audit committee's responsibility to appoint independent auditors subject to shareholder ratification, approve both audit and nonaudit services performed by the independent auditors, and review the reports submitted by them. The audit committee meets several times during the year with management, the internal auditors, and the independent auditors to discuss audit activities, internal controls, and financial reporting matters, including reviews of our externally published financial results. The internal auditors and the independent auditors have full and free access to the committee.

We are dedicated to ensuring that we maintain the high standards of financial accounting and reporting that we have established. We are committed to providing financial information that is transparent, timely, complete, relevant, and accurate. Our culture demands integrity and an unyielding commitment to strong internal practices and policies. Finally, we have the highest confidence in our financial reporting, underlying system of internal controls, and our people, who are objective in their responsibilities and operate under a code of conduct and the highest level of ethical standards.

Sidney Taurel
Chairman of the Board,
President, and Chief Executive Officer

Charles E. Golden
Executive Vice President and
Chief Financial Officer

January 30, 2003

Report of Independent Auditors

Board of Directors and Shareholders
Eli Lilly and Company

We have audited the accompanying consolidated balance sheets of Eli Lilly and Company and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, cash flows, and comprehensive income for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eli Lilly and Company and subsidiaries at December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Indianapolis, Indiana

January 30, 2003

Appendix to Exhibit 99.1

Graphs in Annual Report to Shareholders
for the Year Ended December 31, 2002

Set forth below, converted to tabular format, are the graphs contained in the paper format of the Company's Annual Report to Shareholders that are contained in Exhibit 99.1.

Graph #1—Six Key Growth Products Collectively Delivered 22 Percent Increase

($ millions; percentages represent changes from 2001)

Product	Amount	Percent
Zyprexa	$602	20
Humalog	206	33
Evista	157	24
Gemzar	152	21
Xigris	79	NM
Actos	31	9

Our six major growth products-Zyprexa, Humalog, Evista, Gemzar, Xigris, and Actos-generated $1.23 billion of incremental net sales and $6.7 billion of total net sales in 2002. Combined, these products grew 22 percent for the year. Zyprexa became our first product with net sales outside the U.S. in excess of $1 billion.

Graph #2—Six Key Growth Products Collectively Accounted for 61 Percent of 2002 Net Sales

($ millions)

Year	Prozac/Sarafem/Prozac Weekly	Anti-Infectives	Other	Growth Products
98	30%	12%	36%	22%
99	26%	10%	35%	29%
00	24%	8%	31%	37%
01	17%	7%	28%	48%
02	7%	5%	27%	61%

Combined net sales of the company's key growth products-Zyprexa, Humalog, Gemzar, Evista, Xigris, and Actos-increased by 22 percent over 2001, representing $6.7 billion, or 61 percent of total net sales, compared with 48 percent in 2001.

Graph #3—Revenues

($ millions)

Product	Amount
Zyprexa	$3,689
Humulin	1,004
Gemzar	875
Humalog	834
Evista	822
Prozac/Sarafem/Prozac Weekly	734
Actos	392
ReoPro	384
Humatrope	329
Monensin	201

In total, 10 products spanning various therapeutic classes each had annual revenues in excess of $200 million.

Graph #4—Gross Margin

(as a percent of total net sales)

Year	Amount
98	78.2%
99	79.0%
00	81.1%
01	81.3%
02	80.4%

Gross margin as a percent of sales decreased by 0.9 percentage points, to 80.4 percent. This decline was due to the decline in Prozac sales and increased costs associated with manufacturing improvements, offset partially by a favorable sales mix of other higher margin products and favorable manufacturing throughput from increased volume of product manufactured.

Graph #5—Research and Development

($ millions; percent of net sales)

Year	Amount	Percent
98	1,738.9	18.8
99	1,783.6	17.8
00	2,018.5	18.6
01	2,235.1	19.4
02	2,149.3	19.4

Worldwide research and development expenditures were $2.15 billion in 2002. As a percentage of sales, this investment is the highest in our industry peer group and demonstrates an unbroken chain of commitment to finding answers for a wide range of serious, unmet medical needs. During 2003 and 2004, we hope to launch as many as four new products in addition to Forteo, Strattera, and Cialis.

Graph #6—Capital Expenditures

($ millions)

Year	Amount
98	419.9
99	528.3
00	677.9
01	884.0
02	1,130.9

Capital expenditures increased 28 percent from 2001. The continued heavy investment supported various manufacturing and research initiatives and related infrastructure. In 2003, we expect near-term capital expenditures to increase from 2002 levels due to continuing investment in research and manufacturing capacity to support our growing product portfolio.

Graph #7—Dividends Paid per Share

(dollars)

Year	Amount
98	0.80
99	0.92
00	1.04
01	1.12
02	1.24

Dividends paid during 2002 increased 11 percent over 2001. We have declared a first-quarter 2003 dividend of $.335 per share, an 8 percent increase over first-quarter 2002. For the past 35 years, dividends have increased at an average rate greater than 11 percent annually. This record clearly reflects our continued commitment to delivering outstanding shareholder value.

Graph #8—Return on Shareholders' Equity

(based on income from continuing operations before extraordinary item divided by average shareholders' equity)

Year	Amount
98	46.2%
99	53.9%
00	55.3%
01	42.7%
02	35.2%

Return on shareholders' equity declined during 2002 as a result of declining sales related to the first full year of Prozac patent expiration and our continued heavy investment in support of our promising pipeline and six key growth products.

EXHIBIT 21-LIST OF SUBSIDIARIES AND AFFILIATES

The following are the subsidiaries and affiliated corporations of the Company at December 31, 2002. Certain subsidiaries have been omitted since they are not significant in the aggregate.

	State or Jurisdiction of Incorporation or Organization
ELI LILLY AND COMPANY	Indiana
Eli Lilly Interamerica, Inc.	Indiana
Eli Lilly do Brasil Limitada	Brazil
Elanco Quimica Limitada	Brazil
Eli Lilly Interamerica Inc., y Compania Limitada	Chile
STC Pharmaceuticals, Inc.	Indiana
Lilly ICOS L.L.C.	Delaware
BountyLab Corporation	Indiana
InnoCentive, Inc	Delaware
LE Heston Energy, LLC	Delaware
Dista, Inc.	Indiana
Eli Lilly de Centro America, S.A.	Guatemala
Eli Lilly de Centro America, Sociedad Anonima	Costa Rica
Eli Lilly y Compania de Mexico, S.A. de C.V.	Mexico
Dista Mexicana, S.A. de C.V.	Mexico
Eli Lilly de Mexico, S.A. de C.V.	Mexico
Eli Lilly Industries, Inc.	Delaware
Del Sol Financial Services, Inc.	British V.I.
Lilly del Caribe, Inc.	Cayman Isls.
Control Diabetes Services, Inc.	Indiana
Integrated Medical Systems, Inc.	Colorado
ELCO Dominicana, S.A.	Dominican Rep.
ELCO International Sales Corporation	Virgin Is.-US
Eli Lilly Finance S.A.	Switzerland
Lilly Del Mar, Inc.	British Virgin Islands
Lilly Global Services, Inc.	Indiana
Lilly Systems Biology PTE LTD	Singapore
Eli Lilly Spain Holding ETVE, S.L.	Spain
Eli Lilly Nederland Holding B.V.	Netherlands
Eli Lilly and Company (Taiwan), Inc.	Taiwan
Eli Lilly Holding Company Ltd.	UK
Eli Lilly Holding GmbH	Germany
Eli Lilly Funding Ltd.	Hong Kong
Eli Lilly International Corporation	Indiana
Eli Lilly Iran, S.A.	Iran
ELCO Insurance Company, Ltd.	Bermuda
Eli Lilly Holdings Ltd	England
Eli Lilly Group Limited	England
Eli Lilly & Co. LTD.	England
Dista Products Limited	England
Eli Lilly & Co (Ireland) Trustee Limited	Ireland
Lilly Industries Limited	England
Lilly Research Centre Limited	England
Elanco Products Limited	England
Creative Packaging Limited	England
Greenfield Pharmaceuticals Limited	England
Eli Lilly (Basingstoke) Limited	England
Eli Lilly Leasing Limited	England
Lilly Resources Limited	England
Eli Lilly Resources Limited	England
Lilly Property Limited	England
Eli Lilly Property Limited	England
Eli Lilly Group Pension Trustees Limited	England
Lilly Pharma Holding GmbH	Germany

Lilly Deutschland GmbH	Germany
Lilly Pharma Fertigung & Distribution GmbH	Germany
Lilly Pharma Produktion GmbH & Co. KG	Germany
Lilly Forschung GmbH	Germany
Eli Lilly Ges.m.b.H.	Austria
Lilly GmbH	Germany

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The following are the subsidiaries and affiliated corporations of the Company at December 31, 2002. Certain subsidiaries have been omitted since they are not significant in the aggregate.

	State or Jurisdiction of Incorporation or Organization
ELI LILLY AND COMPANY (continued)	
Eli Lilly International Corporation (continued)	
Eli Lilly Holdings Ltd (continued)	
Eli Lilly Danmark A/S	Denmark
OY Eli Lilly Finland Ab	Finland
Eli Lilly Norge A.S.	Norway
Eli Lilly & Co. (Ireland) Limited	Ireland
Eli Lilly Sweden AB	Sweden
Lilly Turkey A.S.	Turkey
Lilly HK Finance I, LLC	Hong Kong
Lilly HK Finance II, LLC	Hong Kong
Eli Lilly Funding Partners	Hong Kong
Eli Lilly Asia, Inc.	Delaware
Eli Lilly Australia Pty. Limited	Australia
Eli Lilly Australia Custodian Pty. Limited	Australia
Eli Lilly and Company (N.Z.) Limited	New Zealand
Eli Lilly (NZ) Staff Benefits Custodian Limited	New Zealand
Integrated Disease Management (NZ) Limited	New Zealand
E L Management Incorporated	Delaware/Nova Scotia
Eli Lilly Canada Inc.	Canada
Eli Lilly S.A.	Switzerland
Eli Lilly Export S.A.	Switzerland
GEMS Services, S.A.	Belgium
Elanco Trustees Limited	Ireland
Kinsale Financial Services, Ltd.	Ireland
Eli Lilly (Suisse) S.A.	Switzerland
Eli Lilly Vostok SA, Geneva	Switzerland
Oldfields Financial Management S.A.	Switzerland
Eli Lilly Suzhou Pharmaceutical Company Limited	China
Eli Lilly Nederland B.V.	Netherlands
Lilly Development Centre S.A.	Belgium
Lilly Services S.A.	Belgium
Lilly Clinical Operations S.A.	Belgium
Eli Lilly CR s.r.o.	Czech Repub.
Eli Lilly Regional Operations GmbH	Austria
Eli Lilly Egypt	Egypt
ELCO SAE	Eqypt
PaRxner B.V.	Netherlands
Dista Ilac Ticaret Ltd Sti	Turkey
Eli Lilly Nederland B.V. (cont'd)	Netherlands
Elco Participation, sarl	France
Lilly France S.A.S	France
Elsa France, S.A.	France
LICO sarl	France
Eli Lilly Italia S.p.A.	Italy
Eli Lilly Benelux, S.A.	Belgium
Dista-Produtos Quimicos & Farmaceuticos, LDA	Portugal
Lilly-Farma, Produtos Farmaceuticos, Lda.	Portugal
Vital Farma Productos Farmaceuticos	Portugal
Dista Italia S.r.l.	Italy
Pharmaserve - Lilly S.A.C.I.	Greece
Pharmabrand, S.A.C.I.	Greece
PRAXICO Ltd.	Hungary
Lilly Hungaria KFT	Hungary

Eli Lilly (Philippines), Incorporated	Philippines
Eli Lilly and Company (India) Pvt. Ltd.	India
Eli Lilly Israel Ltd.	Israel
Eli Lilly Japan K.K.	Japan
Chugai Lilly Clinical Research Co, LTD.	Japan
Eli Lilly Asian Operations, Limited	Hong Kong, PRC
Lilly Korea LTD.	Korea
Elanco Animal Health, Korea, Ltd.	Korea
Eli Lilly Malaysia Sdn Bhd.	Malaysia
Eli Lilly Maroc S.a.r.l.	Morocco

EXHIBIT 21-LIST OF SUBSIDIARIES AND AFFILIATES

The following are the subsidiaries and affiliated corporations of the Company at December 31, 2002. Certain subsidiaries have been omitted since they are not significant in the aggregate.

	State or Jurisdiction of Incorporation or Organization
ELI LILLY AND COMPANY (continued)	
E L Management Incorporated (continued)	
Eli Lilly S.A. (continued)	
Eli Lilly Nederland B.V. (continued)	
TDM BV	Netherlands
Andean Technical Operations Center	Peru
Lilly Pharma Ltd.	Russia
Eli Lilly Pakistan (Pvt.) Ltd.	Pakistan
Eli Lilly Polska Sp. z.o.o. (Ltd.)	Poland
Lilly Grodzisk Sp. z.o.o.	Poland
Vitalia Pharma Sp. Z.o.o.	Poland
Eli Lilly Singapore Pte. Ltd.	Singapore
Lilly-NUS Centre for Clinical Pharmacology Pte. Ltd.	Singapore
Eli Lilly (S.A.) (Proprietary) Limited	South Africa
Elanco-Valquimica, S.A.	Spain
Dista, S.A.	Spain
Lilly, S.A.	Spain
Spaly Bioquimica, S.A.	Spain
Irisfarma S.A.	Spain
Eli Lilly Nigeria Ltd.	Nigeria
Eli Lilly y Compania de Venezuela, S.A.	Venezuela
Dista Products & Compania Venezuela S.A.	Venezuela

EXHIBIT 23 CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Eli Lilly and Company of our report dated January 30, 2003, included in the 2002 Annual Report to Shareholders of Eli Lilly and Company.

We also consent to the incorporation by reference in the following registration statements of our report dated January 30, 2003, with respect to the consolidated financial statements incorporated by reference in the 2002 Annual Report (Form 10-K) of Eli Lilly and Company:

Registration Statement No.	Type of Statement	Date
33-29482	S-8	June 23, 1989
33-37341	S-8	October 17, 1990
33-58466	S-3	February 17, 1993
33-50783	S-8	October 27, 1993
33-56141	S-8	October 24, 1994
333-02021	S-8	March 28, 1996
333-62015	S-8	August 21, 1998
333-66113	S-8	October 26, 1998
333-90397	S-8	November 5, 1999
333-35248	S-3	April 20, 2000
333-70308	S-8	September 27, 2001

s/ Ernst & Young LLP

Ernst & Young LLP

Indianapolis, Indiana
March 19, 2003

EXHIBIT 99.1 Cautionary Statement Under Private Securities Litigation Reform Act of 1995 - "Safe Harbor" for Forward-Looking Disclosures

Certain forward-looking statements are included in this Form 10-K and may be made by spokespersons based on then-current expectations of management. All forward-looking statements made by us are subject to risks and uncertainties. One can identify forward-looking statements by the use of words such as "expects," "plans," "will," "estimates," "forecasts," "projects," "believes," "anticipates," and other words of similar meaning. One can also identify them by the fact that they do not relate strictly to historical or current facts. These statements are likely to address our growth strategy, financial results, regulatory issues, status of product approvals, development programs, litigation, and investigations.

Certain factors, including but not limited to those listed below, may cause actual results to differ materially from current expectations and historical results.

- Competitive factors, including generic competition as patents on key products expire; pricing pressures, both in the U.S. and abroad, primarily from managed care groups and government agencies; and new patented products or expanded indications for existing products introduced by competitors, which can lead to declining demand for our products

- Governmental factors, including federal, state, and foreign laws and regulations that affect pharmaceutical pricing, such as Medicaid, Medicare, pharmaceutical importation laws, laws relating to generic pharmaceuticals, and other laws and regulations that could, directly or indirectly, impose governmental controls on the prices at which our products are sold or weaken the intellectual property protection that we rely upon for growth in our business

- The difficulties and uncertainties inherent in new product development and introduction of new products. New product candidates that appear promising in development may fail to reach the market or may have only limited commercial success because of efficacy or safety concerns, inability to obtain necessary regulatory approvals, difficulty or excessive costs to manufacture, or infringement of the patents or intellectual property rights of others. In addition, it can be very difficult to predict sales growth rates of new products.

- Delays and uncertainties in the FDA approval process and the approval processes in other countries, resulting in delays in product launches and lost market opportunity

- Regulatory issues concerning compliance with current Good Manufacturing Practice (cGMP) regulations for pharmaceutical products that can lead to product recalls and seizures, interruption of production, delays in the approvals of new products pending resolution of the cGMP issues, fines and penalties, and other sanctions. In particular, see "Quality Assurance" for a discussion of certain cGMP issues.

- Changes in inventory levels maintained by pharmaceutical wholesalers, which can cause reported sales for a particular period to differ significantly from underlying prescriber demand

- Economic factors over which we have no control, including changes in inflation, interest rates and foreign currency exchange rates, and overall economic conditions in volatile areas such as Latin America

- Unexpected safety or efficacy concerns arising with respect to marketed products, whether or not scientifically justified, leading to product recalls, withdrawals, or declining sales

- Legal factors, including unanticipated litigation of product liability or other liability claims, antitrust and pricing litigation, environmental matters, and patent disputes with competitors that could preclude commercialization of products or negatively affect the profitability of existing products

- Changes in tax laws, including laws related to the remittance of foreign earnings or investments in foreign countries with favorable tax rates, and settlements of federal, state, and foreign tax audits

- Changes in accounting standards promulgated by the Financial Accounting Standards Board, the Securities and Exchange Commission, the American Institute of Certified Public Accountants, and the Emerging Issues Task Force, which are adverse for us

- Internal factors, such as changes in business strategies and the impact of restructurings, asset impairments, technology acquisition and disposition transactions, and business combinations.

We undertake no duty to update forward-looking statements.

EXHIBIT 99.2 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Eli Lilly and Company, an Indiana corporation (the "Company"), hereby certifies that, to the best of his knowledge:

The Annual Report on Form 10-K for the year ended December 31, 2002 (the "Form 10-K"), of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date March 19, 2003

s/ Sidney Taurel

Sidney Taurel
Chairman of the Board, President, and
Chief Executive Officer

Date March 19, 2003

s/ Charles E. Golden

Charles E. Golden
Executive Vice President and
Chief Financial Officer